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# Perceptions of the effects of freer-trade between U.S. and Canada on corporate strategies : a survey of presidents of the top 300 Canadian industrial firms.

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# PERCEPTIONS OF THE EFFECTS OF FREER-TRADE BETWEEN U.S. AND CANADA ON CORPORATE STRATEGIES: A SURVEY OF PRESIDENTS OF THE TOP 300 CANADIAN INDUSTRIAL FIRMS

A Dissertation Presented

by

Howard S. Tu

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In memory of my mother,

CHAN CHAI-LING

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ABSTRACT

PERCEPTIONS OF THE EFFECTS OF FREER-TRADE BETWEEN
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The purpose of this study is to understand how business executives perceive the effects of freer trade and the effects of such a perception on the implementation of their strategies.

Many economists argue that free trade will lead to market expansion which in turn results in trade efficiency, production efficiency, and investment efficiency. This study used this argument to analyze executives' perceptions as to the impacts of freer trade and its likely effects on the implementation of their strategies. Perception of executives in the top 300 Canadian industrial firms as to the effects of freer trade between the U.S. and Canada was sought in an effort to discover whether they confirm with the economists' logic. By analyzing the variables which are the underlying causes of the efficiencies resulting from market expansion and by finding out the effects of such variables on the development and implementation of corporate strategies,

we will be able to examine CEO's perception as to freer trade and it effects.

We find that a majority of the executives perceived that freer trade between U.S. and Canada will certainly lead to positive results on the sixteen selected outcomes which are indicators of demand in the market and efficiency in trade, production and investment. The percentage of executives who believe that such outcomes will lead to a change of their implementation of strategies is approximately 60%. This percentage is quite high considering that a high percentage of the U.S.-Canadian business is enjoying some degree of freedom from trade barriers even before the free trade negotiations.

Our findings also support the economists' argument and the hypothesis that manager's decisions in choosing the tactics to implement their strategies are influenced by their perception of the trade policy.

Combining the above findings, we may conclude that, despite different view points, the executives perceive freer trade between the United States and Canada will lead to an expansion of consumption which in turn will lead to the improvement of efficiency in trade, production, and investment.

TABLE OF CONTENTS

LIST OF TABLES

## LIST OF FIGURES

# CHAPTER I

# INTRODUCTION

## Overview

The purpose of this study is to understand how business executives perceive the effects of lessened trade barriers and how such perceptions are likely to affect the formulation and implementation of corporate strategies.

How senior executives perceive and act upon their firms' external environments plays a large role in corporate conduct and performance (Bourgeois, 1985). Strategic management and organization theory provide two academic perspectives on how this performance is achieved (Bourgeois & Astley, 1979). A central tenet in strategic management is that a match between environmental condition and organizational capabilities and resources is critical to performance (Chandler, 1962; Bourgeois 1985), and that the strategist's job is to find and optimize this match. Organization theory literature has advanced a strikingly similar match or fit notion in the contingency theory paradigm. Burns and Stalker (1961) and Lawrence and Lorsch (1967) suggest that effectiveness derives from structuring an administrative arrangement appropriate to an organization's external environment.

Literature in strategic management has noted the importance of perception in decision making (Mintzberg, Raisinghani, and Theoret, 1976; Lyles and Mitroff, 1980; Mason and Mitroff, 1981; Kiesler and Sproull, 1982; Bourgeois, 1985; Duhaime and Schwenk, 1985). It is logical to assume that managers' perceptions of the environment play an important role in determining the strategies of the firms.

Employing the above assumptions, the present study examines the effect of perception of the environment on the formulation and implementation of corporate strategies from the perspective of the presidents of the top 300 Canadian industrial firms.

## Background

Free trade as defined in economics is trade unfettered by government-imposed trade restrictions. This state is unlikely ever to be achieved between two sovereign countries (MacDonald, 1985). Many economists argue that free trade will lead to an expansion of the market, which in turn will lead to production efficiency, investment efficiency, and trade efficiency (Ricardo, 1817; Grubel, 1981; MacDonald, 1985). This argument has been used extensively in both the Bladen Report (1961) and the MacDonald Commission Report (1985) in presenting their cases for freer trade between the U.S. and Canada.

Since production efficiency, investment efficiency, and trade efficiency are deciding factors in long term investments in plants, technology, and human resources, they should have an important impact on the implementation of corporate strategy. From the economists' view, as two countries reach a free trade or, more accurately, a freer trade agreement, more interdependence will occur and there will be reconstruction or reorganization of the economic structures in both countries (Jones, 1979; Shutt, 1985). From a strategic management perspective, managers must develop and implement action plans to improve their organizations' business portfolio and enhance long-term performance (Odiorne, 1974). During a time of change, the managers must anticipate any change between task-environment and restructure the organization to achieve a satisfactory organizational-environmental fit (Terreberry, 1976; Quinn, 1980; Joele, 1982). Mintzberg, Raisinghani, and Theoret (1976), Lyles and Mitroff (1980), Mason and Mitroff (1981), and Duhaime and Schwenk (1985), among others, have demonstrated the importance of perception in the manager's decision making process. Therefore, it may be argued that the manager's perception of the consequences of freer trade will have an effect on the development and implementation of action plans which contribute to the corporate strategy.

## Research Setting and Questions

Negotiations between the U.S. and Canada are proceeding towards a new trade agreement and freer trade is very much in the minds of managers in both countries. A survey was mailed to Canadian executieves on the 6th of July, 1987 and a follow-up was sent one month later. With a negotiation deadline set for October 4, 1987 and with frequent news coverage of the negotiations, the public awareness of the trade barrier problems is at its peak.

Since the conditions of free trade have never been achieved and their ideal effects exist only in theory, how do business executives expect to cope with the problems of trade barriers? How do they intend to incorporate government trade policy into their implementation of their corporate strategies? Do their perceptions of the effects of freer trade agree with the economists' arguments? What effect is the agreement or disagreement with such arguments likely to have on corporate strategies?

## Objectives

The effects of perception on behavior have long been recognized in the fields of psychology and communication. In the field of business, a major effort in marketing research has been concentrated in the study of the relationship between the attitudes and actions of consumers. In strategic management, the importance of perception for decision making has also been noted by several authors (Mintzberg, Raisinghani, and Theoret, 1976; Lyles and Mitroff, 1980; Mason and Mitroff, 1981; Duhaime and Schwenk, 1985).

As a relatively new academic field whose foundations are practical rather then theoretical, strategic management has produced very little hypothesis-testing research. Although the number of investigation is growing, theoretical formulations derived from these investigation are still wanting (Bourgeois, 1985). The primary objective of this study is to contribute to an understanding of how perceptions of changes in the terms of trade are likely to affect strategic decisions by top executives.

In today's global economic, it is almost impossible for a large firm to restrict its business within its domestic boundaries and to disregard the rest of the world. This study does not argue for or against trade barriers, but attempts to find out how executives perceive the effects of a regulation of trade barriers will have on their strategic decisions and how they expect to deal with the resulting changes in their operations. Such findings will be helpful both to firms that are new to international business and to policy makers in the international trade arena. This study's secondary objectives are to address the following issues:

Conceptual:

1) To empirically examine propositions made by the economists with regard to strategic management decisions.

2) To try to link the effects of such propositions to corporate executive policy making.

Pragmatic:

1) To determine how business executives expect to cope with freer trade, especially, in anticipation of free trade; and to examine the effects of freer trade on corporate strategy and its implementation.

2) To help corporate executives define and pursue their role in the formulation of trade policy.

## Subsequent Chapters

Chapter II discusses theory and literature related to executive perceptions of the environment, strategy formulation and implementation, and the relationship between the three. In the study of the alignment of the organization and its environment, one school suggests that organizations should adapt to the external environment, and a second school sees the "enactment" of environment through social interaction (Weick, 1979; Morgan, 1980; Smircich and Stubbart, 1983). Chapter III discusses the role of managers in the formulation of public policies and the legitimacy of such involvement.

Chapter IV takes a look at trade from the economists view point. Our discussion covers the classic economic theories, pure trade theories, and protectionism. Chapter V provides some backgorund on the trade relationship between the U.S. and Canada. Chapter VI develops the research theorems, hypotheses and methodology used in this study. Chapter VII presents the results of the data analysis and a discussion of those results. Chapter VIII contains a summary and conclusion section which provides a synopsis of the value of this research and suggestions for future research.

# CHAPTER II

## STRATEGY, IMPLEMENTATION, AND PERCEPTION

### Introduction

During the last decade, a body of literature has emerged on the meaning of strategy, on how to formulate a strategic plan, and on the process of aligning the internal organization to fit the needs of strategy (Thompson and Strickland, 1983). Today, the conceptual aspects of strategic planning seem to be better developed, while the implementation aspects might be seen as the weakest elements (Lorange, 1982). There appears to be no unified, logical, normative approach to the implementation of strategy. Hrebiniak and Joyce (1984) believe that much more has been written about strategy implementation than is apparent from a survey of titles of books and articles in academic and professional journals. Most of what we do know is fragmented and hidden among several fields of organization and management study. The first part of this chapter will outline the concepts and processes of corporate strategy and then review the literature on its implementation. The second part of this chapter will outline different definitions of perception and discuss the relationship between perception, attitude, belief and their effect on the formulation and implementation of strategy.

## Strategy

### The Concept of Strategy

Since the term "strategy" is borrowed from the military, there is no conceptual consensus about strategy among authors in the field of management (Schendel and Hofer, 1979; Bracker, 1980; Mintzberg, 1981; Evered, 1983). Hofer and Schendel (1978) compare different authors' concepts of strategy. They find that among the authors there are major disagreements in three primary areas: 1) the breadth of the concept of strategy; 2) the components of strategy, if any ; and 3) the inclusiveness of the strategy-formulation process.

Strategy Defined. Until the early 1960's, the basic concept of the business policy area was still that of policy formulation. In the early 1960s, policy formulation proved increasingly unable to deal with the increase in size and complexity of organizations. Chandler's (1962) research marks the beginning of interest in the concept of strategy in academia. He defines strategy as

> the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. (1962, p. 13)

This definition of strategy emphasizes both formation of goals and objectives and of action plans and resource commitments utilized to achieve these ends. Chandler talks more about the process for formulating the strategy than about the content of the strategy itself. Also missing from Chandler's definition is the notion that strategy describes the essential linkage between the firm and its environment (Schendel and Hofer, 1979).

Kenneth Andrews (1980) offers another view of the concept of strategy. Andrews defines strategy as

> the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities. (1980, p. 13)

This definition highlights the interconnection of purposes, policies and organization; the interdependence of the formulation and implementation of corporate purpose; and the internal consistency of a firm's choices of identity, position and character on the one hand and its actions on the other. Andrews' definition is concerned more with managerial practice, and it reveals an interest for the practitioner. It is also more concerned with economic opportunities and threats.

Peter Drucker (1973) deals with strategy from a completely different view point. He defines strategy as objectives which deals with the resources a company needs to be able to perform, with their supply, their utilization, and their productivity. Management has to anticipate the future, to attempt to mold it, and to balance short-range and long range goal. He is mainly concerned with how managers can achieve these objectives. Drucker looks at long range planning as largely makes up by short-run decisions and the present and immediate short range require strategy fully as much as long range.

Schendel and Hofer (1979) feel that these earlier definitions of strategy are incomplete on several counts. First, they did not distinguish between corporate-level and business-level strategy. Second, the relationship between policies in integrating functional areas and the firm with its environment across several organization levels in addition to its functional areas was not made clear. Schendel and Hofer (1979) develop a composite definition of strategy built around four components: 1) scope, which may be defined in terms of product/market matches and geographic territories; 2) resource deployments and distinctive competencies; 3) competitive advantage; and 4) synergy; and three organizational levels: 1) corporate, 2) business, and 3) functional. While this definition excludes goals and objectives, it recognizes that achievement is the aim of strategy and that the combination of objectives, strategy, and policies form a "grand design" or master strategy for the firm.

<u>Change in Strategy</u>. Until recently, the studies in strategy have more or less assumed that strategy is a static concept. Quinn is one of those who introduce the

element of change in strategy by his proposal of logical incrementalism. He defines strategy as "pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole" (Quinn, 1980). According to Quinn, a well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.

Such an explanation for change in strategy is quite different from Lindblom's. In Lindblom's (1959) definition, a strategy is expected to be changed and repeated because of insufficient information possessed by the managers, while in Quinn's definition, a strategy will be changed in anticipation of the changes in the environment. Andrews (1987) offers another explanation of change. He states that " an unique corporate strategy is only rhetoric until it is embodied in organization activities that are guide by the strategy but in turn continually reshape it." Implementation is a complex process including many subprocesses of thought and organization that introduce tentativeness and doubt into prior resolution and lead us to change direction.

A Broader Definition. Like Schendel and Hofer, Christensen, Berg, and Salter (1980) and Thompson and Strickland (1986) define the strategy broadly. They also incorporate Quinn's (1980) element of change into their concept. This approach includes the process of defining purposes, objectives, and goals. There are also indications of a movement toward an integration of analytical/intellectual and behavioral political process in strategy making (Fahey, 1981). The theme of this movement is that the "technical" or analytical rubric of strategy formulation is not sufficient to describe and explain the process of strategic decision making and its outcome, i.e., implemented strategy. The processes involved in acquisition and utilization of organizational power, influence and control must be incorporated into the paradigms of decision making (Mintzberg, Raisinghani, and Theoret, 1976; Pfeffer, 1981; Hickson, et al., 1985).

Thompson and Strickland (1986: 6) define the strategic plan of an organization or organizational subunit as a detailed blueprint of management's answers to the three basic strategic questions facing any enterprise. These questions are:

1) What will we do and for whom will we do it?
2) What objectives do we want to achieve?
3) How are we going to manage the organization's activities to achieve the chosen objectives?

Christensen, Berg, and Salter (1980: 5) note that precise and exact definitions of strategy are neither desirable or possible. They point out that it is more useful to focus on what a statement of corporate strategy should encompass. Considering the organizations' reasons for developing a strategy, they define strategy as: 1) improvement of the ability of the firm to select appropriate basic, long-term objectives for itself; and 2) development of the means by which these objectives can be achieved.

In the past, the approaches to the concept of strategy were more content-focused. The concern has been primarily with the "what," or the nature of the action recommended rather than with the process or "how" the action prescription is arrived at. Recently, some authors have adopted the narrow definition of strategy, which focuses on the means used to achieve given objectives (Evered, 1983; Acar, Chaganti, and Joglekar, 1985). Mintzberg and his associates define strategy as a pattern in a stream of decisions, and decision process as a set of actions and dynamic factors that begin with a identification of a stimulus for action and end with the specific commitment to action (Mintzberg and Waters, 1985; Mintzberg, Raisinghani, and Theoret, 1976). Some generally agree with Hofer and Schendel's (1978) delineation of strategy as 'the basic characteristics of the match an organization achieves with its environment.' Others put special emphasis on issues such as decision-making process (Mintzberg, Raisinghani, and Theoret, 1976; Fahey, 1981; Fredrickson, 1983; Nutt, 1984; Mintzberg and Waters, 1985), uncertainty (Tandon, 1985), perception (Mitroff and Emshoff, 1979; Cosier, 1981; Duhaime and Schwenk, 1985), technology (Frohman, 1985a; Porter, 1985; Sethi, 1979; Sethi, Movsesian, and Hickey, 1985), culture (Shrivastava 1985), and competitiveness (Porter, 1985). However, despite sustained attempts in the literature for synthesis, the concept of strategy still remains a cluster of related notions and representations.

### The Process of Strategic Management

Chandler's (1962) definition of strategy separates strategy into three distinct parts: 1) the formulation of goals and objectives, 2) action plans, and 3) resource commitments. The goals and objectives of an organization generally represent different types of growth. The action plans attempt to carry out the strategy, and resources are funds, equipment, or personnel (Chandler, 1962: 11). The three parts of strategy follow a sequential order in time. Moreover, this approach assumes that an exhaustive analysis can be undertaken before an action is taken, which requires that the CEO hold considerable power and have access to complete information (Bourgeois and Brodwin, 1984).

Andrews (1987) feels that it is reasonable to consider strategy formulation complete before implementation begins only for the purpose of analysis. In real life, we often move without knowing where we will end up;

and the determination of purpose is reality in dynamic interrelation with implementation. The necessity to accommodate unexpected opportunity in the course of continuous strategic decision is a crucial aspect of process.

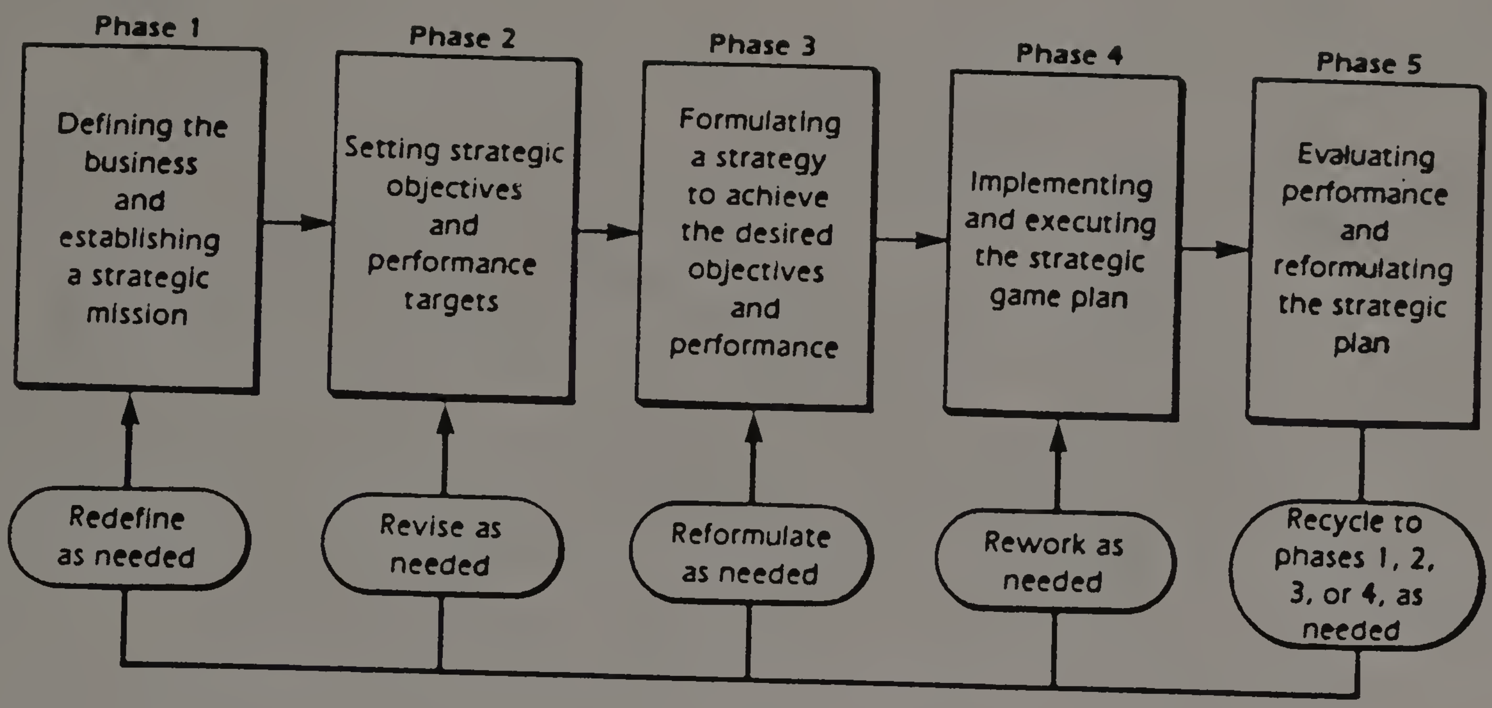
Quinn (1980) also finds that instead of following rigidly prescribed formal planning, managers in major enterprises tend to develop their most important strategies through processes which neither formal planning paradigms nor power-behavioral theories adequately explain. The most effective strategies of major enterprises tend to emerge step by step from an iterative process in which the organization probes the future, experiments, and learns from a series of partial (incremental) commitments rather than through global formulations of total strategies. This view is strongly supported by the findings of Mintzberg and McHugh (1985). By tracking the strategies pursued by the National Film Board of Canada, they find that, contrary to the widely accepted view of strategy making, strategies are "formulated" before they are "implemented," strategies can be "formed" in a variety of ways.

In light of the findings by Mintzberg and McHugh (1985), Mintzberg and Waters (1985) suggest an alternative view to the traditional belief of the strategy formulation process. They note that in the literature, strategy has always been defined in terms of intentions and guidelines for the future -- essentially in terms of plans. This translates into restricting research to the study of perceptions of what those who make strategy intend to do. Mintzberg and Waters (1985) suggest that organizations sometimes may not succeed in pursuing their intended strategy, and may end up pursuing unintended ones. What they define as <u>emergent strategies</u> (patterns that are realized without intention) introduces a completely new concept to the decision-making process. Under this concept, the control to choose among the alternatives and shape the future outcome of a plan is taken out of the hands of the managers. The final outcome of such a strategy is affected by the unforeseeable and unpredictable elements of the environment. Thus, the contribution of managers' strategies to the success of the company is greatly reduced. Under the same concept, the failure of the business may be attributed to unfavorable changing conditions of the environment beyond the control of the manager.

In their study, Mintzberg, Raisinghani, and Theoret (1976) find that in the delineation of steps in almost any strategic decision process there is not a steady, undisturbed progression from one routine to another; rather, the process is dynamic, operating in an open system where it is subjected to interference, feedback loops, dead ends, and other factors. This finding is confirmed by Nutt (1984). Nutt finds that not all stages of the normative decision process are invoked in every process studied. Mintzberg, Raisinghani, and Theoret's (1976) major contribution identified key phases of decision making and external factors that influence the process. However, a twenty-five-case data base is too limited to prove the external validity of their findings. In fact, contrary to Mintzberg and his associates' suggestion that managers seldom use formal planning, Carter (1987), in his study of the uses of formal and informal plans in top executive decision makings, finds that top executives prefer using formal plans in making decisions and are not influenced in their choice by turbulence in their business environment.

To summarize the above approaches' findings, Thompson and Strickland (1986) outline a continuous and evolving process of strategy management (Figure 1). They separate the job of managing an organization's strategic game plan into five elements:

1) Developing a concept of 'what is our business and what will it be.'
2) Establishing strategic objectives and performance targets.
3) Formulating a strategy to achieve the strategic objectives and desired results.
4) Implementing and executing the chosen strategic plan.




(Figure 1)

The Ongoing Process of Strategy Management
(Thompson and Strickland, 1986: 12)

5) Evaluating performance and reformulating the strategic plan in light of actual experience, changing conditions, and new priorities.

With these five elements, they develop a model of the process of strategy management. In their model, strategy evaluation is both the end and the beginning of the strategy management cycle. They also emphasize the following characteristics of the process of strategy management:

- In actual situations it is not always easy to distinguish sharply between the phases of strategy management.
- The sequence from "defining the business" to "objectives" to "strategy" to "implementation and

execution" to "evaluation and reformulation" is not something that management actually does in lockstep.

- The tasks of strategy formulation and strategy implementation are rarely carried out in planned, systematic fashion in isolation from everything else.
- The needs of strategy management are irregular, and the progress made in both formulation and implementation of strategy usually takes the form of incremental adjustments rather than grand designs and giant leaps forward.

From Thompson and Strickland's (1986) summary, we may conclude that although they have delineated the five elements of strategy, we will still need more specific definitions of what is included in each of those elements and what is not included in order to distinguish among phases. Also, in their eagerness to incorporate all the different findings and theories, there are apparently some obvious contradictions in their argument. In particular, some of the characteristics of the process strategy management which they emphasized not only contradict their original model but also seem to have been added on as an afterthought. On the other hand, they can only choose one side when the view points directly contradict each other. This demonstrates the difficulty in attempting to develop a general model.

There are so many factors to consider that the resulting model will be extremely complicated. Mintzberg, Raisinghani, and Theoret (1976) suggest that techniques such as statistics and computer simulations may be needed for further analysis of the problem because of the characteristics of the dynamic factors.

## Implementation

### The Concept of Implementation

In his planning-implementation model Preston Le Breton (1965) defines the implementation phase as primarily concerned with putting completed plans into operation. The implementation process begins after official approval has been given to a plan (Le Breton, 1965:14). In Schendel and Hofer's (1979) strategic management paradigm, implementation is different from the other tasks in several important respects. First, implementation is essentially an administrative task, while goal setting, environmental analysis, strategy formulation, and strategy evaluation can be accomplished analytically and independently of the organization. Second, implementation task is inherently behavioral. Lastly, implementation has traditionally been viewed as the last step in the strategic management process. Attempts to study implementation raise the basic question concerning the relationship between thought and action (Majone and Wildavsky, 1979): Where does one end and the other begin (Pressman and Wildavsky, 1984)?

As the concept of strategy evolves, the approach to implementation also changes. When Quinn (1980) introduces the strategies for change, he implies that in most cases of strategic management, implementation is a gradual, incremental process which alternates with the other phases of decision making. When Mintzberg and Waters (1985) introduce the different types of strategy, what they designate as deliberate strategy and realized strategy are just different terms for implementation and reformulation of strategy. In other words, their terms are similar to phases 4 and 5 of Thompson and Strickland's (1986) model of ongoing strategy management (see Figure 1, page 19). Phase 4 is implementing and executing the strategic game plan, and phase 5 is evaluating performance and reformulating the strategic plan.

The most revolutionary change came as a result of the introduction of dynamic factors by Mintzberg, Raisinghani, and Theoret (1976). According to their findings, strategic decision making is a groping cyclical process. Inherent in it are factors causing the decision process to cycle back to earlier phases. Quite similar to Le Breton's (1965) intended designs of "planning within implementation" and "implementation within planning," under the dynamic factors, implementation may be found at the end of the decision process cycle or be recycled to any other stages of the process. Mintzberg, Raisinghani, and Theoret (1976) also find evidence in the seeking of authorization to proceed with a decision process. Such a seeking of authorization may indicate the existence of incremental implementation. In conclusion, Pressman and Wildavsky (1984) suggest that implementation is everywhere. They further warn that "the separation of policy design from implementation is fatal" except for the purpose of analysis.

## Strategy Implementation

According to Schendel and Hofer (1979), strategy implementation is essentially an administrative task and is inherently behavioral. Managers are the professionals who practice the discipline of management and carry out its functions, and discharge the task at hand (Drucker, 1973). Chandler (1962:11) further states that decisions, either strategic or tactical, usually require implementation by an allocation or reallocation of resources -- funds, equipment, or personnel. Normally, the implementation of the strategic plan requires the resources which only the general office can provide and the executives who actually allocate available resources are the key people in any enterprise. Burns and Stalker (1961) suggest that it is the manager's task is first to interpret correctly the market and technological conditions, in terms of the market's instability or the rate at which technological conditions are changing, and then to design and implement a the management system appropriate to these conditions.

What makes the job of the general manager so complicated when it comes to implementing strategy is the number of variables involved. These variables include: 1) what needs to be done to implement the strategy, 2) how fast to push implementation along, and 3) what managerial approach to take to put the strategy in place (Thompson and Strickland, 1986). Strategy implementation should be congruent among all the dimensions of the organization. There must be a fit within the organization that includes the organization's overall condition and setting; the nature of the strategy and the amount of strategic change involved; and the general manager's skills, style, and ways of getting things done. Miles and Snow (1984) see such a fit as a process as well as a state -- a dynamic search that seeks to align the organization with its environment and to arrange resources internally in support of that alignment.

In practical terms, the basic alignment mechanism is strategy, and the internal arrangements are organizational structure and management process. Miles and Snow (1984) go on to argue that perfect fit is strived for but never fully attained due to continuous external change. In their open system theory, Katz and Kahn (1966) emphasizes the close relationship between a structure and its supporting environment. They assume that without continued inputs any system soon runs down. In their theory, because of the hierarchical ordering of many parts of the organizational structure, most transactions with the environment are monitored through the managerial system. So, the external relationships of an organization's officers comprise a critical set of variables for predicting the effectiveness and survival of the organization itself.

Weick (1979) and Smircich and Stubbart (1983) provide another perspective. They see organization members as symbolically "enacting" their environment through their social interaction. The task of strategic management in this view is "organization making" -- to create and maintain systems of shared meaning that facilitate organized action. There is broad agreement that administrative components of strategy implementation revolve around structuring and organizing internal activities (Thompson and Strickland, 1986). We will take a look at how different implementation processes create internal fits and alignment with the external changes.

## Structure and Implementation

Chandler (1962) defines structure as the design of organization through which the enterprise is administered. This design, whether formally or informally defined, has two aspects. It includes, first, the lines of authority and communication between the different administrative offices and officers and, second, the information and data that flow through these lines of communication and authority (Chandler, 1962:14). John Child (1972) defines structure as the formal allocation of work roles and the administrative mechanisms to control and integrate work activity, including those that cross formal organizational boundaries. Galbraith and Kazanjian (1986) view structure as the segmentation of work into roles such as production, finance, marketing, and so on; the recombining of roles into departments or division around functions, products, regions or markets; and the distribution of power across this role structure.

In his study of the 70 large corporations, Chandler (1962) identifies certain growth strategies that are important for ensuring the long-term survival of organizations. These strategies are expansion of volume, geographic dispersion, vertical integration, and product diversification. Changes in a firm's strategy result from an awareness of the opportunities and needs -- created by changing population, income, and technology -- to employ existing or expanding resources more profitably. The new strategy brings about new administrative problems, which requires a new or refashioned structure if the enlarged enterprise is to operate efficiently. Although Burns and Stalker (1961:19) emphasize technical progress only, they also support the relationship between changes and organizational development.

Several structural types exist, including the centralized functional organization, the decentralized multidivisional form, the holding company form, and the matrix form (Galbraith and Kazanjian, 1986). A centralized organization is characterized by the locus of power concentrated at the top of the organization. A decentralized organization is one which power and decision-making authority are more evenly dispersed throughout the hierarchy and can be found at lower levels in the organization. The functional organization is usually more centralized than the decentralized organization, and its departments are specialized and arranged by function, such as marketing, finance, and manufacturing. The multidivisional organization is generally more decentralized than the functional organization, because the departments are separated on the basis of product, market, or region. The holding company form is one in which even greater authority and responsibility are given to the divisions. Finally, the matrix organization reflects both a functional and a product orientation.

Chandler's (1962) study revealed that structure tends to follow the growth strategy of the firm -- but often not until inefficiency and internal operating problem provoke a structural adjustment. The experience of these firms followed a consistent sequential pattern: new strategy creation, emergence of new administrative problems, a decline in profitability and performance, a shift to a more appropriate organizational structure, and then recovery to more profitable levels and improved strategy execution. Generally, firms with single- and dominant-product strategies utilize the functional form, related business firms have a multidivisional structure, and unrelated product firms use a form more typical of a holding company. Chandler's thesis suggests that there is no one best way to organize, but that all ways of organizing are not equally effective. The choice is dependent or contingent upon the growth strategy.

To implement strategic change, allocation or reallocation of resources -- funds, equipment, or personnel -- is usually required (Chandler, 1962: 11). Chandler's general thesis is that structure follows strategy. This thesis is undergirded by the powerful logic that an organization's structure is just a means to an end, not an end in itself. Structure is no more than a managerial device for facilitating the implementation and execution of the organization's strategy. The structural design of an organization acts both as a "harness" that helps people pull together in their performance of diverse tasks and as a means of tying the organizational building blocks together in ways that promote strategy accomplishment and improve performance (Thompson and Strickland, 1986). Without deliberately organizing responsibilities and activities to produce linkage between structure and strategy, the outcomes are likely to be disorder, friction and malperformance (Drucker, 1973). Following the same line of argument, we may assume that change of structure caused by allocation or reallocation of resources is one of the implementation processes of corporate strategy.

Andrews (1987) define implementation of strategy as comprised of a series of subactivities that are primarily administrative. If purpose is determined, then the resources of a company can be mobilized to accomplish it. An organizational structure appropriate for the efficient performance of the require tasks must be made effective by information systems and relationships permitting coordination of information systems and relationships permitting coordination of subdivided activities. The organizational processes of performance measurement, compensation, management development -- all of the enmeshed in systems of incentives and controls -- must be directed towards the kind of behavior required by organizational purpose. Organization structure and processes of compensation, incentives, control, and management development influence and constrain the formulation of strategy. It is logical to propose that structure should follow strategy, but in reality, strategy also follow structure. The formulation and implementation of corporate purpose are highly interdependent.

Since the work of Chandler, the relationship between strategy and structure has been the subject of a number of conceptual and empirical studies. A few studies support Chandler's dictum that structure follows strategy. Rumelt (1974) reports some data from the American study which bear on this point. His data show that firms shifting from either a single or dominant product strategy to a more diversified strategy during any given 10-year period were more likely to change to multidivisional structure than were firms that both began and ended a decade with a single or dominant product strategy. He further confirms that the multidivisional firm follows the diversification strategy as Chandler predicted. From 1949 to 1969, the functional structures among Fortune 500 firms decreased from 63 percent to only 11 percent, while the multidivisional firm increased from 20 to 76 percent. Daniels, Pitts, and Tretter (1984) find that there is a relationship between organizational characteristics and structure in their study of U.S. multinationals. They find that as long as the foreign sales are low as a portion of total sales, most companies handle foreign operations merely as an appendage to existing product or functional divisions. Increasing dependence on foreign sales will lead to a change from a worldwide product to an international division structure. And once an international division grows to be larger than domestic product divisions, there is a tendency to split it into two or more areas to provide a better balance of size among divisions.

While the above studies support Chandler, the majority find that his dictum is less than the whole truth. Hall and Saias (1980) argue that although structure follows strategy, structure also partly determines strategy. They point out that Chandler was not interested in the process of strategy formulation, which he took as given. Often, structural characteristics act like filters and limit what the organization observe -- both of itself and its environment. In reality, structure result from a complex play of variables other than strategy: culture, values, the past and present of functioning of the organization, its history of success and failure, the psychological and sociological consequences of technological development, and so on. Structure then assumes political content in the same way as strategy, and there is no reason to subordinate one to the other. Pethia (1982) questions the validity of the studies on the relationship of structure and strategy by attacking the concepts of diversification and of the multidivisional structure (MDS). By using Chandler's own definition of diversification to examine Chandler's and some other large sample studies, he concludes that there is no support for the idea that there is a close relation between diversification and adoption of the MDS.

Other authors find that the relationship between structure and strategy is not as simple as it seems. A number of studies claim that size, not strategy is the principal determinant of structure (Meyer, 1972; Grinyer and Yasai-Ardekani, 1981; Foster and Gooding, 1984). Others find that structure is related to the environment and performance (Lenz, 1980), the age of the organization (Glisson and Martin, 1980), technology (Alexander and Randolph, 1985), and the decision maker's choice (Ford and Hegarty, 1984). Galbraith and Kazanjian (1986) summarize in that strategy does make a difference in terms of the degree of diversity (related-unrelated diversification) pursued as well as the market structure characteristics of the firm's specific product-market positions. Secondly, the choice of strategy must be matched with an appropriate organization form. Thus, the strategy-structure fit is probably only one among several key linkages. Galbraith and Kazanjian (1986) provide the following guidelines regarding strategy and structure:

1. Performance is the product of multiple factors, of which two primary one are:
   a. Matching strategy to industry structure and core skills.
   b. Matching organizational structure to strategy.
2. Given a strategy that requires greater or lesser diversity, position in industrial settings characterized by favorable market variables, the

firm must organize to match structure to the primary demands of strategy.

a. Single-business and dominant-business firms should be organized in a functional structure.

b. Related diversified firms should be organized in a multidivisional form.

c. Unrelated diversified firms should be organized in a holding company structure.

d. An early adoption of a strategy-structure fit can constitute a competitive advantage.

Galbraith and Kazanjian (1986) further emphasize that structure is only one of a number of managerial variables that must be consciously designed in accordance with the strategy of the firm.

Based on the studies in the area of structure and strategy, it is obvious that most of the elements that may influence the design of the organizational structure are so highly correlated that it is impossible to isolate any one element for research. The most widely accepted view is expressed by the contingency theory, which dictates that the effectiveness of a given organizational structure depends on such situational characteristics as the environment that the firm faces, the tasks that it undertakes, and the people involved in the performance of those tasks. As for Chandler's dictum of structure follows strategy, Hall and Saias (1980) suggest to interpret Chandler's position that 'unless structure follows strategy, inefficiency results.' as meaning: 'Unless structure matches strategy, inefficiency results.' Whatever our conclusion may be, we cannot deny the importance of structure in the study of implementation process.

### Control as Implementation

Management control systematically sets performance standards consistent with planning objective (Mockler, 1972). The conventional model of control essentially consists of some objective or standard to be achieved, the measurement of accomplishment, a comparison of the objective or standard with the accomplishment, and the taking of corrective action if the results fall outside the tolerance limits of deviation (Michael, 1984). Most often, control in organizations refers to the financial control of budgets; recently, there have been some new concepts and interpretations. Those related to implementation will be discussed below.

Financial control. When Alfred Sloan first wrote the 'Organization Study' for General Motors as a possible solution for the specific problems created by the expansion of the corporation after World War I, his objective was to achieve better control of GM's divisions (Sloan, 1972). He noticed that under the prevailing practice of intracorporate relations, he could not determine the rate of investment of the divisions (Sloan, 1972:52). No one knew how much was being contributed by each division to the common good of the corporation. In the absence of such information, it was impossible for the general officers of the corporation to determine where to invest the money to the best advantage, and some of the officers used their membership on the Executive Committee to advance the interests of their respective divisions. The purpose of Sloan's study was to formulate rules and regulations pertaining to interdivisional business. His basic argument in the 'Organization Study' is that the profit resulting from any business considered abstractly is no real measure of the merits of that particular business. It is not a matter of the amount of profit but the relation of that profit to the real worth of investment capital within the business. Based on his 'Organization Study' he recommended financial control by developing statistics correctly reflecting the rate of return. His implementation of financial control resulted in the reshaping and redesigning of the organization. These data were later used by Chandler in his work in

<u>Strategy and Structure</u>.

<u>Feedforward control</u>. Most current control systems rely on feedbacks. Unfortunately, feedback signals error or deviation from the desired performance after the fact and correction does not take effect immediately. As we wait for the result from the feedback, the deviation

tends to persist and the costs incurred tend to rise. Koontz and Bradspies (1972) and Steve Michael (1980) adapt an approach used in engineering systems and come up with a suggestion for feedforward control. Engineering feedforward control meets the problem of delay in feedback systems by monitoring the effects on outcome variables. Michael perceives the contribution of feedforward control as narrowing the gap between expected and actual results. "Feedforward permits advance correction only in approximate terms; it can reduce error but it cannot eliminate it. Hence feedback is necessary to make the actual and final adjustment of the organization to its environment (Michael, 1980)." The most widely used techniques of future-directed control are the various kinds of forecasting. The principle of forecasting is based on the current expectancies to predict probable results. Forecasting will not work if previous critical data are not available. Feedforward control monitors the results of previous implementation and uses them as the standard for the current ones. Therefore, feedforward control may be considered as one of the implementation processes.

Interactive planning. Strategic management involves the detection of emerging environmental threats and opportunities, the prediction of their future impact, and the development of the organization's response. Ideally, the future can be predicted with enough confidence to justify whatever commitment is needed by the resulting action plans. Because the environment is so uncertain and fast moving with many potential threats and opportunities, the organization often finds it difficult to react using conventional strategic management approaches. Ansoff (1984) proposes that the appropriate management approach is to exercise the strategic option of developing organizational flexibility and using interactive planning. In his effort to explain logical incrementalism, Quinn (1980) also points out that one of the greatest possible errors in managing technical program is to freeze plans too soon. He suggests that the most current feedback from the marketplace and technical communities must be introduced into the development process for as long as possible. He argues that highly adaptive learning interactions with outside information sources and strong incentives to use the information obtained are among the primary reasons why high-morale small companies can so often outdesign larger electronics companies or huge planned bureaucracies.

One reason for using incremental planning is that human beings often naturally resist change (Kotter and Schlesinger, 1979). People resist change when they do not understand its implications; assess the situation differently from the initiator; and have low tolerance for change. Administered properly, interactive planning may help overcome such resistance. Another reason is our limited intellectual capacities and insufficient information. Because of such limitations, practitioners can expect to achieve their goals only partially, and would be expected to repeat their policy making endlessly as conditions and aspirations change and as the accuracy of prediction improves (Lindblom, 1959).

## Competitive Advantage and Implementation

Porter (1980) defines competitive strategy as involving the positioning of a business to maximize the value of the capabilities that distinguish it from its competitors. It is obvious that the 'positioning of a business' involves implementation. According to Porter (1980), competitive advantage cannot be understood by looking at the firm as a whole. It stems from many discrete activities that a firm performs in designing, producing, marketing, delivering, and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation. Porter (1985) introduces the value chain as the basic tool for systematically examining all of a firm's activities. The value chain disaggregates a firm into its strategically relevant activities so that the behavior of costs and the existing and potential sources of differentiation can be better understood. A firm gains a competitive advantage by performing these strategically important activities more cheaply or better than its competitors. Porter separates the value activities of the firm into two groups: the primary activities and the support activities. The primary activities are inbound logistics, operations, outbound logistics, marketing and sales, and service. The support activities are procurement, technology development, human resource management, and firm infrastructure. While the primary activities are the day-to-day operating activities of the firm, the support activities deserve further explanation and defining.

<u>Technology</u> Technological change can either create or destroy profits, markets, and industries. Examples of significant technological impacts on business are numerous. A company that integrates technology into its strategy significantly improves its chance to compete (Frohman, 1985a). Whether it decides to be a technological leader or not, the results of integrating technology into strategy can improve a company's determination of priorities among technology options, identify the technical resources needed to achieve business goals, and speed up the movement of ideas into production. The company can also better focus on its internal technical efforts and tune its external technical monitoring to specific issues facing the business (Frohman, 1985b).

However, not all technological change is strategically beneficial. Indeed, it might worsen a firm's competitive position and industry attractiveness (Porter, 1985). Porter argues that technological change is not important for its own sake, but is important if it affects competitive advantage and industry structure. High technology does not guarantee profitability. Due to their unfavorable structure, many high technology industries are much less profitable than some low-technology industries.

Technology will affect competitive advantage if it has a significant role in determining relative cost position or differentiation. Porter (1985) argues that since technology is embodied in every value activity and is involved in achieving linkages among activities, it can have a powerful effect on both cost and differentiation. He introduces several tests for determining a desirable direction of technological change:

- The technological change itself lowers cost or enhances differentiation and a technological lead is sustainable.
- The technological change shifts cost or uniqueness in favor of a firm.
- Pioneering the technological change translates into first-mover advantages besides those inherent in the technology itself.
- The technological change improves overall industry structure.

_Human resource management_. Human resource management consists of activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel. Human resource management affects competitive advantage through determining the skills and motivation of employees and the costs of hiring and training. A critical issue in human resource management is compensation.

The appraisal portion of the strategic plan has long been a problem. The concept of "pay-for-performance" is widely accepted by the business community. Nonetheless, executive compensation has come under increasing criticism (Rappaport, 1983). Existing compensation programs often incorporate three major roadblocks to the selection and execution of value-creating strategies by corporate executives:

1) The increased pay for increased size phenomenon -- the relatively high association between firm size and executive compensation can only fuel management's natural inclination to expand businesses as fast as possible.
2) The relatively heavy weighing attached to short-term performance in incentive compensation packages.
3) The invariable reliance on such accounting measures as earning and return on investment rather than economic performance measures for both short and long-term plans.

To avoid the above problems, researchers have designed plans to link strategy, performance and compensation. Some examples are the bonus system with MBO (Migliore, 1982), which is an application of bonus system within Management By Objective (Odiorne, 1969); and Value Performance Plans (Rappaport, 1983). These plans adapt executives compensation packages to the long-term objectives of the organization, and therefore, should be adjusted for adaptation.

Procurement. According to Porter's (1985) theory, procurement refers not to the purchased inputs themselves, but to the function of purchasing inputs used in the firm's value chain. Though purchased inputs are commonly associated with primary activities, purchased inputs are present in every value, activity including support activities.

Firm infrastructure. Firm infrastructure consists of a number of activities, including general management, planning, finance, accounting, legal, government affairs, and quality management. In Porter's (1985) value chain, infrastructure, unlike other support activities, usually supports the entire chain and not individual activities. Depending on whether a firm is diversified or not, its infrastructure may be self-contained or divided between a business unit and the parent corporation. In diversified firms, the infrastructure is typically split between the business unit and the corporate level.

Politics and Implementation

Political activities reflect the influence of individuals who seek to satisfy their personal and institutional needs by the decisions made in an organization (Mintzberg, Raisinghani, and Theoret, 1976). These individuals may be inside or outside of the organization. What ties them to the decision process is their belief that they will be affected by the outcome. Their political activities serve to clarify the power relationships in the organization. They can also help to bring about consensus and to mobilize forces for the implementation of decisions.

Hickson, et al. (1985) present a different picture of politics in an organization. They contend that the top managers of an organization are all playing a decision making game. Such a game is serious for the players involved since it is the setting for career struggles. Because an organization is a shifting multi-goal coalition of stakeholders, numerous interests are drawn into strategic decision making -- internal departments, divisions, subunits, and external customers, clients, suppliers, government departments and agencies, all of which can exert influence. Therefore it is not surprising that decision making does not follow a fixed course. It may run into "interruptions" and "recycle" again and again (Mintzberg, Raisinghani, and Theoret, 1976), while "sequential attention to goals" (Cyert and

March, 1963) swings the emphasis first one way, then another.

<u>Power in organization</u>. Pfeffer (1981) defines organizational politics as those activities taken within organizations to acquire, develop, and use power and other resources to obtain one's preferred outcomes when there is uncertainty or disagreement about choice. Power is a force, a store of potential influence through which events can be affected. Politics involves activities or behaviors through which power is developed and used in organizational settings. Power is the property of the system at rest; politics is the study of power in action. From the definition of power, it is clear that political activity is undertaken to overcome resistance or opposition. Because political activity is focused around the acquisition and use of power, it can be distinguished from activity involved in making decisions which uses rational or bureaucratic procedures. In both rational and bureaucratic models of choice, there is no place for and no presumed effect of political activity. Decisions are made to best achieve the organization's goals, either by relying on the best information and options available, or by using rules and procedures which evolved in the organization. In contrast, political activity implies the conscious effort to muster and use force to overcome opposition in a choice situation.

Pfeffer defines the first condition of the use of power as interdependence, a situation in which what happens to one organizational actor affects what happens to others. He defines the second condition as heterogeneous goals, which are inconsistent with each other. A related condition would be heterogeneous beliefs about technology, or the relationship between decisions and outcomes. The third condition is scarcity. To the extend that resources are insufficient to meet the various demands of organizational participants, choices have to be made concerning the allocation of these resources. Organizational actors build power from: 1) providing resources, 2) coping with uncertainty, 3) being irreplaceable, and 4) affecting the decision process. Power is exercised through the use of the outside experts, controlling the agenda, coalitions, cooperation, and committees.

Institutionalization of power. One of the most important administrative function is the development of common understandings about the world within the organization. This function serves to legitimize the organization in its external environment and to increase the commitment of those within the organizational coalition. Political language and political symbols are instruments for all who contest the organization's decision. Language, symbols, rituals, and ceremonies are used to manage the process by which actions and events are given meaning (Rosen, 1985). The process is managed to legitimize and support the organization's desired behaviors and actions which are to be carried out within the organization.

### Behavioral Approaches to Implementation

The various branches of the behavioral approach generally reflect a shared belief in the social and self-actualizing nature of people. People at work are assumed to act on the basis of (1) desires for satisfying social relationships, (2) responsiveness to group pressures, and (3) the search for personal fulfillment (Schermerhorn, 1984). This basic assumption has its roots in the Hawthorne studies and the seminal theory of human needs developed by Abraham Maslow.

Theory X and Theory Y Douglas McGregor (1960) advance the thesis that managers could benefit greatly by giving more attention to the social and self-actualizing needs of people at work. He feels that managers must shift their view of human nature from what he calls "Theory X" to "Theory Y". McGregor's (1960) Theory Y includes a willingness for people to exercise self-control in their work. Self-control occurs when the individual determines how things should be done and exercises personal discipline in accomplishing performance results. People will do this only for matters to which they are committed. Thus, managers who expect others to exercise self-control should be allow them to participate in the decisions through which the objectives and standards are initially set.

<u>Job Enrichment and Job Enlargement</u> Chris Argyris (1957) argues that certain classical management principles are inconsistent with the mature adult personality. The resulting incongruence between individual personality and the organization cause conflict, frustration, and failure for people at work. He suggests for the managers to accommodate the mature personality by expanding job requirements to include more task variety and responsibility; and to adjust supervisory styles to include more participation and better human relations.

<u>Japanese Management</u> Drucker (1971) posits that Japan's success in their economic growth and performance after the War is attributable to Japan's policies of: 1) making effective decisions by 'consensus'; 2) harmonizing employment security with other needs such as productivity, flexibility in labor costs, and acceptance of change; 3) and developing young professional managers. It would be impossible for managers in the West to imitate these policies because they are deeply rooted in Japanese traditions and culture. Yet, Drucker believes that the principles underlying these Japanese practices deserve close attention and study in the West because they may point the way to a solution to some of our most pressing problems.

## Perception

### Perception and Attitude

Perception. After studying some definitions of perception in the field of psychology, Howard Bartley (1958) found it customary for authors to act in accord with the following:

> 1. That perception may be dealt with by general description, without necessarily introducing a formal definition for the reader. It is as though it were taken for granted that most people know pretty much, in general, what perception is, and that any further discussion of it can be carried out simply by adding new illustrative material, or new anecdotal items.
> 2. That when definition are offered, they need only be fragmentary, general, and need not place perception in relation to the other processes that go to make up the individual's overall behavior.
> 3. That sensation may still be looked upon as an elementary process underlying perception. (1958, p. 12)

The same conditions seem to prevail in management, where the majority of authors who discuss perception generally take its definition of perception for granted. March and Simon (1958) are among the few authors who have attempted to define perception. They describe perception as a complex interweaving of affective and cognitive processes which define a situation in a particular way for an actor. Whether inside or outside administrative organizations, humans behave rationally only relative to some set of "given" characteristics of the situation. Four sets of givens define a situation as it appears to the rational actor. They include knowledge or assumptions about future events (e.g., probability distributions of future events), knowledge of alternatives available for action, knowledge of consequences attached to alternatives -- knowledge that may be more or less complete -- and rules or principles for ordering consequences or alternatives according to preference.

Attitude. In studying attitude, Fishbein and Ajzen (1975) find that despite the vast amount of research and publication of countless books and articles on the topic, there is little agreement about what an attitude is. They feel that this may be, in part, attributable to its use as an explanatory concept in diverse areas of investigation. Most investigators intuitively select a particular measurement procedure that seems to fit the purpose of their study. Fishbein and Ajzen (1975) emphasize the necessity of distinguishing among beliefs, attitudes, intentions and behavior. These four variables have often been used interchangably in the past. Fishbein and Ajzen (1975) suggest that the distinction of the variables not only will permit us to classify previous research into conceptually independent categories but will also serve to eliminate many apparent inconsistencies.

From the management view-point, Courtney Brown (1976: 16) defines attitude as "a relatively enduring organization of beliefs around an object or situation predisposing one to respond in some preferential manner." He further defines belief as "an inference made by an observer about underlying states of expectancy." In comparing the meaning of perception and attitude, beside noticing the common ambiguity and confusion, one can readily observes the similarity between Courtney Brown's definition of attitude and March and Simon's definition of perception. In this study, these terms will be used interchangably.

## Perception and Behavior

Behavioral scientists have long been interested in the study of the relationship between peoples' attitudes and their behavior. From time to time, investigators have tried to test the assumption that attitude serves as a behavioral predisposition. One of the best know studies is Richard LaPiere's (1934) investigation of racial prejudice. He investigated whether or not he could predict peoples' prejudiced behaviors from their self-reports of prejudice. In the early 1930s, LaPiere accompanied a young Chinese couple in their travels through the United States. Visiting 251 restaurants, hotels and other establishments, they were refused service only once. Six month later, LaPiere wrote to all of the places where they have stopped, asking if they would give service to Chinese guests. Of the 128 places that responded, ninety-two percent state that they would not serve Chinese guests.

Other studies also failed to find a significant relationship between verbal reports and behavior. One example is Corey's (1937) attempt to measure students' attitudes toward cheating and then used these measures to predict actual cheating on a set of tests. This measure of cheating behavior was found to be completely unrelated to the student's attitude toward cheating. These findings raised serious doubts about a strong relation between attitude and behavior (Petty and Cacioppo, 1981).

To explain the failure of attitude to predict behavior, both Doob and Thurstone argue that the same attitude can be expressed in different actions. While knowledge of a person's attitude can tell us little about whether he/she will perform some particular behavior, it can tell us something about his/her overall pattern of behavior (Ajzen and Fishbein, 1980). Although performance or nonperformance of a specific behavior with respect to some object usually cannot be predicted from knowledge of the person's attitude toward that object, a specific behavior is viewed as determined by the person's intention to perform the behavior itself. According to Fishbein and Ajzen (1975) conceptual framework, a person's intentions in the final analysis are a function of certain beliefs. Rather than being beliefs about the object of the behavior, they are concerned with the behavior itself. Some of these beliefs influence the person's attitude toward the behavior. Specifically, the attitude toward performing a given behavior is related to beliefs that performing the behavior will lead to a certain consequences and one's evaluation of those consequences. This attitude is viewed as one major determinant of person's intention to perform a behavior in question.

## Perception and Strategy

As decision makers, managers are charged with formulating, directing, coordinating, and managing the organization's response to environmental change (Kiesler and Sproull, 1982). A crucial component of managerial behavior in rapidly changing environment is the cognitive processes of noticing and constructing meaning about environmental change so that the organization can take action. Recent research on social cognition has began to provide that understanding by revealing processes and outcomes that indicate how managers analyze a changing environment (Kiesler and Sproull, 1982; Bartunek, Gordon and Weathersby, 1983; Cragin, 1983; Kleinmuntz, 1985; Gioia and Manz, 1985).

Until recently there was little research on the study between the relationship of managerial perceptions of the environment and their effect on strategies. However, quite a few significant studies have been published since the mid eighties. Some examples are:

Bourgeois' (1985) study on top management perceptions of uncertainty and corporate strategic goals, Wilson and Kenny's (1985) study on managerially perceived influence over intradepartmental decisions, and Fombrun and Zajac's (1987) study of intraindustry stratification as a function of top manager's responses to perceptions of their environments.

## Summary

After studying the different views on the formulation and implementation of strategy, it is obvious that there are some contradiction among the different authors. However, under all the arguments for detail and fine points, we can find some general consensus. Basically, the formulation and implementation of strategy are interdependent of each other and these in turn depends on the ability of the managers to effectively utilize the different resources that are available.

From our discussion on perception, we may conclude that the behavior of an individual is affected by their perception. As Andrews (1987) indicates, the determination of a suitable strategy for a company begins in identifying the opportunities and risks in its environment. Unfortunately, in most occasions, managers will have to operate with insufficient information. As a result, they will have to rely on their instinct and their perception of the environment. When we combine the above conclusions, it implies that the formulation and implementation of strategy is related to the perception of their environment by the managers and their perceive ability to most effectively utilize their available resources.

# CHAPTER III

# THE ROLE OF BUSINESS IN GOVERNMENT REGULATION AND TRADE POLICY

## Introduction

Miles and Snow (1984) see implementation as a dynamic search that seeks to align the organization with its environment and to arrange resources internally in support of that alignment. Katz and Kahn (1966) see the external relationships of an organization's officers as comprising a critical set of variables for predicting the effectiveness and survival of the organization itself. Weick (1979) and Smircich and Stubbart (1983) see organization members as symbolically "enacting" their environment through their social interactions. Such an open systems approach to organizations as well as the emphasis on strategic behavior of organizations as open systems has fostered an interorganizational perspective (Ullmann, 1985). From the behavioral point of view, government regulation can redistribute wealth. Business, as a social sub-system, attempts to influence government regulations as a way to compete for scarce resources (Zardkoohi, 1985). From the strategic view, the participation of corporations in political processes constitutes strategies to monitor and influence the external environment (Keim, Zeithaml, and Baysinger, 1984).

Political involvement and political power are inextricably linked (Sethi, 1982). Where political participation might be viewed by one group as a positive act in a democratic system, another group might construe such participation as the abuse of power and an attempt to subvert democratic processes. This chapter looks at the different views of business' political involvement and examines some theories of its legitimacy both from the U.S. and Canadian side.

## Business and Government in the U.S.

Many of the critical problems plaguing business are the result of changes in external forces and constraints. In response to these pressures corporations have begun devoting extensive resources to external affairs projects, long-range planning, and public relations campaigns (Aplin and Hegarty 1980; Lorange, 1982; Ungson, James and Spicer, 1985). The development of effective strategies for coping with governmental regulation has proven especially perplexing (Weaver, 1977; Rom, 1979).

In his study of the political process and the roles of the business corporation in American politics, Epstein concludes:

> American business corporations have been, are, and, in the foreseeable future, will undoubtedly continue to be involved in the political process. This involvement results from the corporate presence in a pluralistic

> democracy in which diverse social interests seek to enhance their economic positions vis-a-vis each other. Moreover, the extent of corporate political activity will probably increase. (1969, p. 6)

"The controversy which creates the substance of politics" in this country includes more than merely the justifying and the opposing of governmental programs. It involves the determination of relationships of power and influence among diverse social interests and the many organs of government (Epstein, 1969).

## Historical Background

During the Colonial period, the merchant's role was to move Americans along the road to a more business oriented culture. However, this culture was not exactly the type of business culture that was to be the rule in the later periods (Cochran, 1974). According to Cochran, the influences on the development of American culture by the merchants of the Colonial period is not as important as the legacy of a commercialized agriculture passed on by planners and farmers.

During the mid-nineteenth century when state legislatures often operated as markets where government favors such as franchises and tax relief were for sale and protection against adverse regulations also had to be bought, lawyers at the state capitals were indispensable to businessman. In spite of the appearance of corruption in the aid of business, such governments not only exacted costly tribute from new enterprises, but failed to provide the legislative reliability and stability necessary for financing highly capitalized long-run ventures. To find some firm context for lasting commitments, businessmen turned to the common law and the courts, particularly to the state supreme courts (Cochran, 1974). During this period, the actions of government officials, particularly those of the federal government, had an increasingly greater impact on managerial decisions. However, their impact was mostly indirect and generally in the form of shaping the environment where management made its decisions (Chandler, 1977).

In 1887, Congress passed the Interstate Commerce Act to regulate the railroads. However, the act had little effect on the operation of the carriers, since the Interstate Commerce Commission, which was established under its provisions, was merely a fact-finding agency with no coercive powers. The second great regulatory milestone, the Sherman Antitrust Act of 1890, had a similar history. Passed despite its opposition by leading corporations, particularly the Standard Oil Company, the act was sufficiently limited and ambiguous to be easily circumvented. Presumably, the Sherman Antitrust Act (1890) and the rest of the antitrust laws were passed to halt the spread of business monopoly and to restore effective competition to the market economy.

Yet, revisionist analysis of the Clayton Act, the Federal Trade Commission Act, and the Robinson-Patman Act has severely shaken this conventional view; various scholars have demonstrated that these particular "antitrust" statutes were often supported and employed by established business interests to restrain and restrict competition (Armentano, 1982). The primary effect of both pieces of legislation was to provide expensive nuisances for the affected corporations and to delude the public into believing that effective regulation existed (Epstein, 1969).

According to Epstein (1969), the failure of the business community to prevent the Depression destroyed the faith that many Americans had placed in such assertions during the 1920's and contributed to the election of President Franklin D. Roosevelt. Corporate political responses largely took the form of opposition to the New Deal legislative program by means of the trade-association activity and massive public relations campaigns designed to convince the public of the evils confronting them. Also, corporations poured large sums of money into electoral efforts to defeat "that man in the White House." Significantly, during the first Roosevelt administration, the Supreme Court served as a buffer between the business community and the administration's legislative program. During 1935 and 1936 alone, the Court declared seven major New Deal acts unconstitutional . Among the pieces of New Deal legislation that have traditionally been considered "antibusiness," only the National Labor Relation Act of 1935 (Wagner Act) interfered significantly with classic corporate prerogatives. That act authorized governmental supervision of two key aspects of business activity -- cost and authority. The impact of the Wagner Act was mitigated a decade later with the passage of the Taft-Hartley Act in 1947 (Epstein, 1969).

During World War II, the mobilization of the war economy brought corporation managers to Washington to carry out one of the most complex exercises ineconomic planning in history. That experience lessened ideological anxieties about the government's role in stabilizing the economy. Then the fear of postwar recession and consequent return of mass unemployment brought support for legislation to commit the federal government to maintaining full employment and aggregate demand. Although the Employment Act of 1946 was passed only through the concerned efforts of liberal and labor groups, businessman in general had began to see the benefits of a government commitment to maintaining aggregate demand. They supported the efforts of both Democratic and Republican administrations during the recessions of 1949, 1957, and 1960 (Chandler, 1977).

## Legitimacy

Before the late nineteenth century, questions of legitimacy relating to the business corporation mainly addressed the legitimacy of the ends and means of government power in affecting corporations, rather than the legitimacy of corporations' use of the facilities that the law had provided for them (Hurst, 1970). According to Hurst, the public had been troubled by the grant of corporate charters conferring valuable public-utility-type franchises (Werner, 1981). The expansion of trade in the first decades of the nineteenth century caused business enterprises to specialize in the financing and transportation of goods. They found it advantageous to pool large amounts of capital to improve financial and transportation services by setting up corporations in banks, turnpikes, and canals (Chandler, 1977). This charters were issued in the form submitted by applicants with only minor modification (Werner, 1981).

Brandeis also points out that there were fears about the charter of business corporations (Werner, 1981). These included the fears about "monopoly," "encroachment upon the liberties and opportunities of the individual," further some were concerned that "the absorption of capital by corporations, and their perpetual life, might bring evils similar to those which attended mortmain. There was a sense of some insidious menace inherent in large aggregations of capital, particularly when held by corporations."

Our concern is the extent to which businesses can participate legitimately in political processes in attempting to gain resources (or access to resources) to further their own interests (Wood, 1985). Epstein (1969) defines legitimacy as

> a belief in and acceptance of the 'rightness, propriety, moral goodness' or 'appropriateness' of particular persons, institutions, or modes of behavior. (1969, p.254)

He states that the question of corporate political legitimacy has two parts -- internal and external. The internal issue is related to the mode of governance of the corporation or the basis of the authority of managers to make decisions for the firm and the identification of the constituency to which they are responsible. The external issue concerns the relationship between the corporation and other participants in the American social order. Such external issue raises the question of whether corporate political participation differs fundamentally from that of noncorporate actors and thereby renders the former improper.

Hurst uses the legitimacy concept as a tool for understanding the development of corporate law (Werner, 1981). According to Hurst, the legitimacy of an institution is measured by its utility to some end other than its own perpetuation and by its responsibility or accountability to some judgment other than that of its power-holder. Hurst concludes that society relied upon regulation external to the corporation -- not upon corporation law or internal governance structure -- to enforce the corporation's responsibility to its immediate economic functions and its broader social relations (Werner, 1981). As for external legitimacy, in terms of both the utility and the responsibility of institutions, there has been an increase in public policy directed towards the business corporation in the United States after the apparent policy equilibrium of the 1880's (Hurst, 1970). According to Hurst, by the 1930's what had begun as competitive chartering in a handful of states had set a national pattern of corporation law. By then in most states of commercial, industrial, or financial importance, the available incorporation statute was an enabling act, offering to those organizing or controlling a corporate board the opportunity to arrange its structure according to their own wishes.

Following the arguments of Berle and Means' (1933) erosion doctrine, Epstein agrees that the question of internal legitimacy based on traditional legal and economic theory is no longer valid. The selection procedure in the giant public corporations is largely ritualistic since the incumbent management controls the proxy machinery and the shareholders are largely impotent. Epstein argues that the internal legitimacy of the corporation derives from (1) the selection of corporate leadership in a manner viewed as proper by the public, and (2) "'managerial ... commitment to the enterprise and ... acceptance of rational, public criteria by which its actions may be judged' resulting in an inner-dynamic tendency within modern management 'toward a progressive reduction in the arbitrariness of decision making' (p.268)."

Epstein (1969) based his arguments for the external legitimacy of corporate political activity on the following:

1) Individual versus group political activity. While it is correct to suggest that individual political participation is basic to a democracy, Epstein argues that the chief social values cherished by individuals in modern society are realized through groups.
2) If the political participation of membership associations is legitimate, so should be that of corporations.
3) The importance of social pluralism and economic interdependence in contemporary American society requires corporations to be active political participants and thereby justifies the external legitimacy of corporate political involvement.
4) Public acceptance of corporate political involvement provides another basis of

legitimacy.

5) The final indication of the acceptance of the legitimacy of corporate political activities is the acknowledgement of corporate politics by government.

Archie Caroll (1981) views legitimacy as a dynamic process. He sees "legitimacy as a 'condition' that prevails when there is congruence between the organization's activities and society's expectations." As the society's norm and values change, business must change if legitimacy is to be continued.

## How U.S. Business Became Involved in Politics

In response to pressures, corporations have begun devoting extensive resources to external affairs projects, long range planning, and public relations campaigns (Aplin and Hegarty 1980; Lorange, 1982; Ungson, James and Spicer, 1985). The formulation of political strategies is complicated by changes in philosophies underlying business-government relations. The prevailing tendency among business executives to lump whatever is happening under the heading of "regulation" obscures the tremendous scope of the transformation that is occurring in the corporate environment (Windsor, Greanias and Jones, 1983). We must consider not just economic regulation, but an emerging law of government control which encompasses the full range of rules affecting business decision.

The transition from a laissez-faire philosophy to one embodying extensive governmental involvement in business decisions is manifest in many ways (Aplin and Hegarty, 1980). According to Aplin and Hegarty, traditionally, federal regulatory agencies were industry-specific, narrow in scope, lacking in enforcement powers, and concerned primarily with fostering the development of their industry. The older independent regulatory agencies, such as CAB, FCC, FTC, ICC, and so on, were designed to prevent monopoly, increase competition, prevent abuses of managerial practice, and establish uniform standards of safety, security, communications, and financial practice. In contrast to these earlier agencies, the newer federal agencies have been issue-oriented versus industry-oriented. The scope of these agencies and the volume of regulations they produce are unparalleled in the U.S. history.

The actual response of organizations to regulations may be directed externally to influence the authorizing legislation, the implementation of regulations and enforcement practices. Alternatively, or in conjunction with externally directed influence attempts, an organization may respond internally by changing structures and processes to conform to the new regulatory requirements or by diversifying out of the regulated industry to avoid regulations (Cook, et al., 1983). The internal responses are related to corporate strategies and implementation which have been discussed above. The following discussion then will focus on external interorganizational responses.

Federal government bodies affect the activities of organizations and individuals as they frame legislation to ameliorate economic and social ills. Consequently, any proposed legislation or action of these bodies is of concern to various sectors of society. America's tradition of political pluralism aggravates this situation by permitting all segments of society to voice their opinion. Pluralism inevitably produces conflicts between groups and individuals striving to achieve mutually exclusive objectives (Aplin and Hegarty, 1980). To achieve their goals these individuals and organizations exert intense pressure on legislators, key policymakers, legislative assistants, and standing committees of Congress.

Lobbying efforts assume many forms. Corporations, society groups and other government bodies use information-based strategies as their major techniques for influencing legislative proposal. Union groups use political appeals as an influence strategy. Societal interest groups gain much of their power because of their fiduciary relationship with a broader cross-section of society (Aplin and Hegarty, 1980).

Traditionally, the strategy of the majority of top business executives in the United States has been to maintain a low profile in the public forum. Until the 1970s, the most important and influential nationally active business lobbying and advisory groups were either industry-specific or were so panindustrial as to impede any quick or effective mobilization of corporate resources (McQuaid, 1980). Because of their broad and heterogeneous membership, larger American corporations could neither use the US Chamber nor the NAM (US Chamber of Commerce and the National Association of Manufacturers) to lobby effectively against regulatory laws. As big businessmen become increasingly aware that they needed new avenues of collective and individual access to government to influence the formulation and implementation of regulatory legislation, they begin involving new types of lobbying and advisory groups to accomplish their goals. The Business Roundtable (McQuaid, 1980) is one such group. To solve the access problem, large business targeted their CEOs on congressmen whose districts contain plants or other subsidiaries of their firms.

Besides its regulatory activities, the U.S. government is also responsible for a group of promotion and protection policies including direct subsidies, loans and loan guarantees, import protection, and price supports. In reviewing these policies of promotion and protection it will be noted that the reasons for such policies range widely. According to Greer (1987), much their motivation is simply special interest politics. The few individuals and firms that benefit usually benefit a great deal while the many that consequently pay higher taxes or higher prices pay relatively little. One reason that special interest politics can succeed is a disparity in the concentration of benefits relative to costs. A second reason is logrolling, which is simply the exchange of political favors. The Chryler bailout of 1981 is an undisputable example of the above forces (Iacocca and Novak, 1984; Reich and Donahue, 1985).

### The International Scene

In the international scene, as always, economic conditions change rapidly, with growth in some countries and stagnation in others. Similarly, political conditions change, some countries becoming less stable, others more so. Legal and attitudinal trends change in relation to different kinds of businesses, typically according to an irregular global pattern. In total, the changes in the international order calls for particular strategic planning responses. To this end, Lorange (1982) suggests the development of procedures that would permit a firm to have a realistic picture of emerging issues and the gathering of information regarding positions of one's supporters and one's adversaries, so that firms will be able to develop the appropriate strategy to deal with the changes.

Since the 1940's, United States has relied on the General Agreement on Tariffs and Trade (GATT) as a guide for its planning and negotiation on trade matters (Dam, 1970). Recently, the U.S. government's continuing dissatisfaction with the rules and dispute settlement procedures of GATT (Dale, 1980) has focussed attention on various steps that individual nations can take to reduce, deter, or offset trade barrier and "unfair" trade practices of other countries (Baldwin and Thompson, 1984). Most of these steps are based on the provision of GATT which permits a country to impose countervailing duties against subsidized imports and dumping practice of another nation.

The trade policy position of companies becomes more protectionist when they face greater pressure from import competition, benefit less from access to foreign markets, and are less diversified in the products they produce and sell (Pugel and Walter, 1985). All these difficulties reflects U.S. firms' limited ability to react to import competition through internal readjustment of production activities. Their inability to compete "fairly" in the international arena has fueled suggestions for a retaliating strategy for trade negotiations to bolster the competitive position of United States industries (Baldwin and Thompson, 1984).

## Corporation and Its Political Power

Business appears to be a very powerful political actor. Is corporate political power excessive? What is the extent of corporate influence on government today? By what criteria should the proper limits to the political power of the corporation be judged?

Firms exposed to the international competitive environment inevitably have a stake in national trade policy (Pugel and Walter, 1985). Based on the argument of the divorce of control from ownership and thus lacks clearly defined guidelines of managerial accountability, critics of corporate political power are primarily concerned that the modern corporation will overwhelm other social interests competing in the political process and thereby achieve dominance over the formal and informal institutions of American government (Epstein, 1969).

Basing their argument on subjective-expected-utility theory, Bacharach and Lawler (1980) argue that interest groups operate, for the most part, in a live-and-let-live world. As long as their gain is maximized, they care little about the gain of the others. Epstein (1969) also argues that power must be distinguished from power potential. "Although a social actor may possess both *a base of power* (resources or assets) and the *means of power* (the specific actions by which one can use these resources to influence the behavior of another), the mere existence of these power possibility is not, per se, power."

Epstein (1969) has suggested that the political influence of corporations enterprise should be judged excessive if it persistently threatens to deny other social institutions effective access to, and influence upon, centers of governmental decision making. Judged by this standard, he concludes: "Corporate political power does not presently constitute a danger to the American pluralistic democracy, which continues to produce legislation, rulings, decision and programs that are contrary to the desires of significant corporate interests (p.303)."

Jacoby (1973) and O'toole (1981) agree that the dream of the free market remains enticing for most Americans. Jacoby notes a relative reduction in the political power of older institutions like the corporation and the labor interests. He predicts that with these, there will come a great reduction in the chance that American society will ever be dominated by any single interest bloc. Lenway (1983) also finds that although Epstein's work does not hold true in the international area, U.S. trade policy has not been more protectionist in the post World War II period. Given that the incentives for interest groups to organize in favor of protection are very strong, there appear to be limits on the ability of business to influence public policy in the international dimension. Lenway (1983) concludes that such limits are caused by a policy to abide by the regulations of GATT and by concerns over possible retaliation by other countries.

## A Comparison of the U.S. and Canadian Government

Thomas (1980) and Kornberg, Clarke and Goddard (1980) find that the operation of parliamentary government has long since ceased to reflect the pattern depicted in the classic Victorian model. In both Canada and Britain, effective power appears to have "passed from the monarch to Parliament; from Parliament to Cabinet; from Cabinet to public service; and now, from public service to Prime Minister." Thomas observes that the movement toward presidential government may even have progressed further in Canada than in Britain. He further observed that although there are obvious and even growing parallels between presidential and parliamentary government, the differences are substantial and of much greater significance for the operation of national decision-making processes.

Thomas has compares the two governmental systems in three areas: political environment, governmental structure, and governmental performance. An abstract of his findings is presented in the following.

Political Environment

The similarities between Canadian and American societies and their respective political systems are: both are pluralistic democracies with heterogeneous populations; both have affluent capitalist economies with strong welfare state components; and both are organized as continental federal systems.

There are, however, notable and striking areas of differences that affect the political life of the two nations. These areas include political culture, political parties, and interest groups.

Political Culture. American political culture has a revolutionary heritage and is grounded in Lockian individualism. To this day, the consensus on political ideas in the United States is basically anti-governmental. In contrast, Canada lacks a revolutionary background and its political culture is distinguished by four mutually reinforcing elements: a pragmatic appreciation of government's economic role; a corporatist theory of society; a strong tradition of deference towards authority; and quasi-participative individual political involvement.

American attitudes towards authority are less deferential than Canadian, and political participation tends to be greater in the United States. There is a pronounced difference between Canadian and American nationalism. Canada has always struggled to achieve national unity. The ethnolinguistic distinction between English Canada and French Canada reinforces strong regional and provincial differences and loyalties. In such a polity, cultural and regional fragmentation is transcended through a process of elite accommodation in which the political leaders of the various subcultures bargain to maintain the viability of the national political system. The elites share an awareness of the dangers of fragmentation, a commitment to maintaining a national identity and a pragmatic willingness to compromise in order to achieve it. The masses remain committed to support their respective elites. Most of the bargains and compromises that result from elite accommodation would not be possible if they were subject to popular approval. The strong pattern of deference towards authority and the quasi-participative nature of mass politics in Canada are thus highly functional for the process of elite accommodation.

American politics is a form of pluralism in which multiple elites govern with mass support or acquiescence through bargaining and mutual adjustment within the framework of a broad consensus. Elite competition, the continuous circulation of elites, overlapping group memberships and the spontaneous rising of countervailing power-centers combine to prevent monolithic elite domination.

<u>Political</u> <u>Parties</u> Non-legislative parties in Canada

and the United States present several interesting similarities and differences. Both of the major Canadian parties and the two American parties have historically performed brokerage functions rather than acting as linkage between public opinion and public policy in accordance with the responsible party model. The brokerage function of the major parties arises out of different systemic imperatives.

In Canada, it is primarily a form of elite accommodation that obscures social divisions. In the United States, it is an operational necessity if a party wishes to capture the presidency. Each major party must attempt to forge a winning electoral coalition within its framework. This requires as broad a social, economic and geographic base as can possibly be formed and can only be accomplished through bargaining and compromise over issues and commitments regarding appointments and policies.

The most striking difference between Canadian and American political parties lies in the degree of legislative party cohesiveness. In Canada, nominations are controlled by a cadre of leaders in constituency-level organizations. The electorate has virtually no impact on the selection of party candidates. Central party leaders often suggest candidates, although they are in no position to dictate to local organization leaders. However, the latter tend to consider loyalty to the national party in the selection process. To some extent, party rather than electoral control over selection of candidates contributes to party discipline in Parliament. The use of primary election to select candidates in the United States prevents party organizations at all levels from controlling candidates selection and severely limits party influence as a result. The consequences are profound for legislative party cohesion and for the pattern of decision-making in Congress.

Interest Groups. In both Canada and the United States, interest groups are recognized as functionally necessary and legitimate participants in the political process. Their roles in the two polities are similar, but not identical. In both nations they provide a form of functional representation that supplements formal geographic representation. They are important sources of advice and information for government officials, and they share in the governing process. The principal differences between Canadian and American interest groups are tactical and operational and derive from the basic structural distinctions between presidential and parliamentary government. In Canada, interest groups target their activities primarily on the executive, both Cabinet and bureaucracy. In the United States their efforts are more broadly distributed across the legislature, the bureaucracy, and the electorate.

## Governmental Structure

The Executive-Legislature Relationship. The most fundamental difference between Canadian and American government institutions lies in the relationship between the executive and the legislature. In Canada, the two institutions are joined together and have the same electoral base. Parliament is a strong and viable mechanism because the executive is in Parliament. Executive and legislative leadership are fused in the Cabinet which also ties the bureaucracy to Parliament. It is not possible to define independent spheres of legislative and executive authority or to distinguish between governmental functions on a structural basis.

In the United States, the Constitution formally separates the executive and the legislature while allowing each to share some of the powers of the other. Their membership does not overlap. Executive and legislative leadership is provided by different individuals who do not necessarily belong to the same party. The executive is not formally responsible to the legislature, but both are accountable to the electorate. The bureaucracy has ties to both Congress and the presidency that often pull in different directions.

Legislative Organization. In addition to the basic structural differences involving presidential and parliamentary government, there are important secondary differences between the United States and Canada with respect to legislative organization, executive organization and federalism. The most striking organizational difference between Parliament and Congress involve the power of the upper chamber, the role of standing committees, the availability of staff service, and party cohesiveness. In contrast to its Canadian counterpart, the United States Senate enjoys equal authority with the lower House. Each member of the House and Senate has a sizable personal staff to aid in the performance of legislative work, rendering service to constituents and managing political relations with the constituency. However, the autonomous status of congressional committees, the independent power of their chairman and the viability of committee jurisdiction fragment power in Congress.

Executive Organization. The collegial nature of executive leadership in Canada as opposed to the individual leadership of the President is an obvious distinction. The collective responsibility of the government means that power stakes are collective and the Cabinet must defend those stakes collectively. The Prime Minister cannot individually define and defend the power stakes of his government as the President must do for his Administration. The relationship between the President and Cabinet member is an individual one, but it usually preludes closed personal association. The Cabinet member can best serve the President by maintaining a discreet measure of independence from him.

<u>Federalism</u>. There are two major differences in the patterns of intergovernment relations between Canada and the United States: the relative power of provincial (state) and national governments, and the mechanisms for funding and implementing national programs. The Canadian provinces stand in a stronger position vis-a-vis Ottawa than do the states vis-a-vis Washington. Provincial political leaders play a more important ongoing role in national policy-making than do their counterparts in the American states.

In the United States, most federal programs that do not involve automatic entitlement to benefits are implemented through categorical grant-in-aid. Congress makes the grants conditional upon matching funds by the recipients and compliance with various guidelines and regulations. The extend of federal control that accompanies categorical grants is a constant source of conflict between federal, state and local authorities. In contrast to the United States, Canada has since 1941 moved steadily away from reliance on conditional grants. It employ instead a complex system of tax-sharing under which the provinces are free to collect their own taxes or have the federal government do it for them. Provinces have been running their own programs rather than merely sharing in the cost and administration of federal programs. As a result, a system of "consultative federalism" has developed that extends well beyond the co-operative federalism involved in a system that relies primarily on grants-in-aid.

## Government Performance

The basic structure differences in the United States and Canada result in contrasting patterns of decision-making and in the performance of different governmental functions. In both nations, political forces seek access wherever effective power over policy is located and decisions are made by bargaining among elites through a process of elite accommodation.

The American Pattern. Modern presidential government in the United States is highlighted by the diffusion of power among independent institutions. This affords interest groups a multiplicity of access points to press their demands. The presidency is the principal governing institution along with the bureaucracy. However, the President does not command. He must build a governing coalition through persuasion. Since 1973, Congress has been reasserting its authority over foreign and military policy. In matters involving domestic and economic policy, the President is expected to present a legislative program for congressional consideration and is required to submit a budget and to prepare an economic report. Congressional consideration of the President's legislative program and the budget is a complex process the outcome of which is by no means predetermined.

Autonomous administrative agencies that distribute benefits or regulate economic activity, interest groups which are the agencies' clientele and congressional committees or subcommittees that have legislative and appropriations jurisdiction over the agencies comprise the three components of pervasive Washington phenomenon, the policy subgovernment. Neither the President, the White House staff, appointed political executives or party leaders in Congress can control or even penetrate a smoothly running subgovernment.

The Canadian Pattern. The structural fusion of legislative and executive leadership and functions seemingly imparts decisiveness, adaptability and responsiveness to Canadian government that are lacking in the American presidential system. The centralization of power in the Cabinet limits the formal participants and stages in the policy process and reduces the number of access points for the inputs of interest-group demands.

Under prime ministerial leadership, the Cabinet develops the government's legislative program and financial measures and direct their movement through Parliament. Closed negotiations are held within the Cabinet over the content of legislation. Consultations are held with administrative and political leaders in the provinces with ministers and indirectly through the bureaucracy. The expansion of the bureaucracy has made it an important center of power. Its policy role is substantial and is based on information, expertise, and discretion. Career officials in central agencies perform key co-ordination functions and public officials participate actively in Cabinet committee decisions. The close relationship between career officials and Cabinet ministers makes the bureaucracy a prime interest-group target.

On April 17, the Constitution Act, 1982 was enacted in Canada. The Constitution Act, enacted the principle that no law made by the English Parliament would extend to Canada other than at the request and consent of Canada. The Constitution Act, also includes a guarantee of rights expressed in Part I: Canadian Charter of Rights and Freedoms (MacEllven, 1983). This Charter sets out guarantees for fundamental freedoms and democratic, mobility, legal, equality, and linguistic rights. The Constitution Act was introduced as a resolution of the House of Commons and Senate addressed to the British Parliament (Manser, 1985). Thirty items (Acts or orders) are listed in the schedule, but of these six are repealed (Banks, 1985). All of these items are acts that were in existence before the enactment of the Constitution, therefore the enactment of the Constitution has no direct effect on the business and government relationship.

## Business and Government in Canada

### Interest Groups

There are several reasons for the lack of consensus for the omnipresence of a degree of coercion in government decision making (Trebilcock, et al., 1982). One reason is that many of the objectives are intangible and not susceptible to commonly accepted definition, much less measurement. Another reason is that there is little agreement about either the inescapable trade-off between competing objectives or the effects of particular policy changes upon their realization. An individual's interest is to protect and enhance his comprehensive net worth over time (Hartle, 1979). This involves fending off incursions of others, grasping those rare gains that can be obtained at no one's expense, and increasing his own interests at the expense of others where this is consistent with the law, social pressures, and his own conscience. In government decision making, this includes the attempt to change government rules and obtain government rulings, or prevent unfavorable rulings, as a kind of investment by individuals in improving their wealth.

The players who participate in the government decision making process may be separated into three distinct groups: the conflict resolving group, the media, and the special interest groups (Hartle, 1979).

The first group includes members of the party candidates, ministers, deputy ministers, and regulatory agency heads. They are actively participating in the conflict resolution process by virtue of the fact that they are holders of offices.

Because of the enormous importance of voter perceptions in the whole decision making process, and the role of the journalist in interpreting to the voter what is transpiring in the public decision making system, the media has a major effect on collective decision making (Hartle, 1979; Kornberg and Wolfe, 1980; Trebilcock, et al., 1982).

The third group that is pressing for special interests includes: corporate executives, labor leaders, and association executives. The chief executive officers of corporations are usually assumed to seek to maximize profits on behalf of the shareholders who hold him accountable although such assumption may not always hold. From this perspective, seeking government intervention that would increase corporate profits, and battling government intervention that would reduce corporate profit, is one of the responsibilities of the executive office. Investing in manipulating government decisions one way or another, where the potential benefits are expected to exceed the costs, is just part of the job (Hartle, 1979).

The heads of associations of labor unions have inward-looking responsibilities that include resolving inter-union jurisdictional disputes and encouraging the member unions to finance unionization of the unorganized. Their vital responsibility is to present a strong and united labor front to the public and the government. Holding the limelight and appearing militant and intransigent on behalf of the "little man" in pressing the government for policy changes in maintaining the support of the member unions is another crucial dimension of the job.

Some of the trade and industry association executives may work in pursuit of similar but not necessary identical interests of the corporate executives. It is also true that some collective rights associations, consumer, safety, and civil liberty associations in particular, would pursue interests similar to those of labor leaders.

The likelihood of interest groups being effective in a federal system is a matter of some dispute. On the one hand, federal systems are valued by associations because they provide multiple access points for influencing government. Bucovetsky (1975) illustrated this possibility when he showed how provincial and national mining associations used all relevant pressure points in their ultimately successful attack on proposals for tax reform. On the other hand, federal structure has been described as major obstacles to successful group action. This problem in Canada may be seen in the following form. In order to be effective, the national organization needs the strong support of its corresponding provincial organizations. However, if the provincial organizations support the national organization too strongly, they will alienate their members (Coleman and Grant, 1985).

## The Business-Government Relationship

Murray and McMillan (1983) developed a "conceptual map" of the overall relationship between business and government in Canada. They organized the current literature into five schools of thoughts, each of which supported a different set of explanations for the present state of business-government relationship in Canada. The five basic schools are:

1) the general social structures and ideological context school ("macro" perspective);
2) the interpretive school (negative values, attitudes and beliefs of the parties);
3) the failure of business school;
4) the failure of government school; and
5) the failure of the interaction process school

In a survey of 243 chief executives officers and senior federal public officials, Taylor and Murray (1987) find support in the "interpretive school of thoughts." They argue that subjective interpretations of reality significantly affect the outcome of the interactive/ consultative process between business and government.

At the time of the survey, in the spring of 1984, they find that there were massive differences between business and government leaders on the general state of the business-government relationship. The business community felt that the relationship had deteriorated badly, that the government was too left wing and interfered too much in the economy. Government respondents agreed that there had been deterioration but they did not go nearly as far as the business respondents. They felt that their policies in general were just about right and that business had suffered a decline in public esteem. In the findings, both sides agreed that business did not take a sufficient professional approach to their dealings with government. Both groups were more or less equally split over the such matters as business leaders not understanding how the democratic process in government works, the extent to which the chief executive officer's job pressure keep them from attending to relations with government, the extend to which they ought to use lobbyists, and the strength of industry and trade associations in influencing government. Finally, the vast majority of all respondents to the survey felt that there was not enough face-to-face interaction between the key actors on both sides, that the timing, content, structure, and process of the interactions that do occur are often inappropriate, and that there is not enough cross-over in career between the worlds of business, politics, and government administration. In sum, Taylor and Murray's survey reveals that business respondents see the root problem as imbedded in various failure within government, in particular in the roles of politicians and senior civil servants. They also see, to a lesser extent, a problem in the way they organize themselves to make policy decisions. These beliefs are not widely shared by the politicians and civil servants. Government leaders attribute cause to certain characteristics built into business leader's role in society - an explanation which businessmen tend to reject.

Later, Bartha (1985) finds that there is a significant heightened awareness of the importance of external problem, especially those emanating from government policies. However, "many corporations do not have strategies, implicit or otherwise, for dealing with the issues created by government and other changes in the environment." Bartha attempt to explain such a contradiction from the chief executive officer's perspective. He points out that there are two distinct aspects to business-government relationship: systemic and competitive. At the systemic level are the macro issues of public policy that affect all members of a collective group - an industry, a sector or even the business community as a whole. At the competitive level are the micro concerns that influence the performance of an individual entity - a firm or its specific business units

- in relation to its competitors. Bartha speculates that CEOs are unable or unwilling to accept individual responsibility for dealing with what they regard as a collective problem. As a result, the task of strategically managing external relations at a systemic level, then, is entrusted to collective units - industrial trade associations and broadly based organizations such as the Business Council on National Issues, the Canadian Chamber of Commerce and the Canadian Manufacturing' Association.

## Summary

Based on the above discussion, we may conclude that government policies have profound effects on the profitability of a firm. Although there are differences between the presidential and parliamentary systems, both systems provide multiple access points for business to influence government decision making process. Such influence is more pronounced in Canada than in the U.S. because of the corporatist theory of society in Canada and the more diffused power in the political system in the United States. While most of the scholarly attention is concentrated on influences that brought to bear on public policy formulation, there is little empirical work devoted to the study of the influences themselves.

# CHAPTER IV

# INTERNATIONAL ECONOMICS AND TRADE THEORY

## Introduction

International economics deals with the economic relations among nations. Most nations of the world export some goods, services and factors of production in exchange for imports which could only be supplied relatively less efficient at home, or not at all. Thus a great deal of the economic well-being of most nations rests crucially on international interdependence.

International trade theory can be regarded as an extension of general economic theory to the special problems encountered in trades between nations. Although the emphasis has traditionally been on trades between countries, the theory can also be applied to problems of trades between other economic units. There are several reasons to refer to the theory as international trade theory rather than as general trade theory (Heller,1973). First, as a general rule a vast different exists in the degree of mobility of resources between countries as opposed to within countries. Second, human beings, the factor of production labor, are often restricted in their freedom of movement between countries. Third, financial transactions within countries are usually unrestrained, but international capital flows are often prohibited or severely limited by government authorities. Fourth, land, another important resource is severely restricted as far as its international mobility is concerned. Fifth, economic environment, such as taxation, capital market, is more homogeneous within a country than it is between units located in different countries. Sixth, the sociopolitical environment often differs greatly between nations.

We will first look at some classical economic theories, then pure trade theories, protectionism and balance of payments.

## Classical Economic Theories

### The Mercantilist View on Trade

The economic philosophy known as mercantilism was popular in such countries as Britain, Spain, France and the Netherlands from the sixteenth to the middle of the eighteenth century. Among the more important aspects of mercantile ideology were: (1) the identity of money with wealth, (2) political unification and strong government, (3) protectionism and state intervention, and (4) power (Steiner and Steiner, 1985).

Mercantile practices differed among the European states but they generally sought to maintain centralized political power at home and a military power that could be exercised in the foreign interests of the sovereign. The mercantilists reasoned that a strong nation state was one that was wealthy. These states therefore determined to control their economic systems at home and to expand their empires abroad in order to acquire as much of the world's precious metals as possible. Exports were stimulated and imports were restricted. Colonies were considered to be useful in achieving the major purpose of accumulating precious metals and be a source of sales of finished goods.

Adam Smith

In 1776, Adam Smith published his famous book, The Wealth of Nations, in which he attacked the mercantilist view on trade and advocated free trade as the best policy for the nations of the world. He assumed that human was rational and recognized the age-old urge of individuals to increase their wealth. The wealth of a nation were the aggregate wealth of the individual members of the population. Thus, the wealth of a nation would increase most rapidly if individuals were left free to pursue their own interests as they saw fit. Smith argued that with free trade, each nation could specialize in the production of those commodities which it had an absolute advantage, or could produce more efficiently. This international specialization of factors in production would result in an increase in world output which would be shared by the trading nations. Thus a nation need not gain at the expense of other nations -- all nations could gain simultaneously.

<u>The Role of Government</u>. Although he discussed the 'invisible hand' in <u>The Theory of Moral Sentiments</u>, Adam Smith did not accept a rigorous laissez faire policy. Instead, he advocated a limited sphere of government interference in economic affairs. He presented the duties of the government as follows:

1) the duty of protecting the society from the violence and invasion of other independent societies;
2) the duty of establishing an exact administration of justice; and
3) the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual.

<u>John Mill</u>

John Stuart Mill was a philosopher of the English utilitarian school. His thinking in trade greatly influenced the development of Ricardo's theory. One of his earlier writings in economics, "An Essay of the Impolicy of a Bounty on the Exportation of Grain" (1804), advocates for free trade. In his essay, Mill condemned all forms of interference in the market for provisions. In his latter essay, "Elements of Political Economy" (1826), Mill pointed out the advantages of free trade.

Because of their close relationship it is difficult to decide who was the first to come up with the arguments. However, the same arguments used by Ricardo in his theory of comparative advantage.

Mill argued in favor of restricting government economic regulation in order to avoid political evils (Steiner and Steiner, 1985). His strongest reason against the extension of government power was the social debilitation he felt government regulation tended to bring. He maintained that whenever people look continuously to government to resolve problems of their joint concern, whenever people expected to have everything done for them except matters of mere routine, their faculties were only half developed.

## The Pure Trade Theories

### Ricardo's Law of Comparative Advantage

Ricardo stated that even if a nation had an absolute disadvantage in the production of both commodities with respect to the other nations, mutually advantageous trade could still take place. The less efficient nation should specialize in the production of and export of the commodity in which its absolute disadvantage is less. This is the commodity in which the nation has a comparative advantage. On the other hand, the nation should import the commodity in which its absolute disadvantage is greater. This is the area of its comparative disadvantage. This is known as the Law of Comparative Advantage.

Ricardo based his reasoning on a number of simplifying assumptions: 1) two nations and two commodities; 2) free trade; 3) perfect mobile labor within a nation but completely immobile labor internationally; 4) constant costs of production; 5) no transportation costs; 6) no technological change; and 7) labor is the only factor of production (Kreinin, 1971). The Law of Comparative Advantage can most easily explained by a simplified example used by Kreinin. Assume the world consists of two countries, A and B, that produce two commodities, wheat and textiles. Suppose further that the only factor of production employed in producing the two goods is labor in a homogeneous form. This means that the value of each product is determined exclusively by its labor content, or "labor theory of value." Goods moves freely between the two countries but labor is mobile only domestically, not internationally. Transportation costs are also assumed not to exist.

Suppose that the production condition prevailing in the two countries are those of Table 1.

Table 1. One Man-day of Labor Products

| Country | | |
|---|---|---|
| A | 60 bushels of wheat | 20 yards of textile |
| B | 20 bushels of wheat | 10 yards of textile |

It is obvious that labor is more productive in country A than in country B in both the textile and the wheat industries. However, a vertical comparison of the figures in Table 1 shows that the degree of country A advantage over country B is not the same in both industries. The wheat industry has an advantage of 3 to 1, but the textile industry only has an advantage of 2 to 1. Comparative speaking, therefore, country A has a greater advantage in wheat and lesser advantage in textile. Country B is in the reverse position. Domestically, country A must give up 3 bushels of wheat to obtain 1 yard of textile. It would be eager to purchase textile abroad if a yard could be obtained for less than 3 bushels of wheat, because then the resource cost of textile embodied in the wheat traded is less than that of forgoing wheat product in order to produce the textile at home. From the country B's point of view, domestically, the resource of 1 yard of textile is 2 bushels of wheat. If it is able to obtain through trade more than 2 bushels of wheat per yard of textile, it will trade. In sum, the appropriate comparison for each country is between the resource cost of the commodity produced at home and the cost when it is acquired from abroad in exchange for the export good.

The Demand and Supply of Trade. So far, we have dealt with the supply conditions in each nation, almost to the complete neglect of the demand side. A feature of the Ricardian example is that trade leads each country to specialize completely in the production of the commodity in which it has a comparative advantage. The 'complete specialization' arises from the assumption that production costs per unit of output remain constant as output expands or contracts. If we have an 'increasing cost' condition, the prices in the two countries will converge and once the marginal unit price is the same in the two countries, there is no inducement for trade to expand further.

<u>The Modern Theory</u>.

The productivity comparison between the two countries is possible only because of the existence of an international common denominator -- a given quantity of homogeneous labor. This also implies that either labor is the only factor of production or that labor is used in the same fixed proportion in the production of all commodities. The labor theory of value is rejected because the two above assumptions are not true in today's society. Instead an opportunity cost theory and the production possible curve are introduced in the modern theory of value to overcome these shortcomings.

<u>The Heckscher-Ohlin Theory</u>. The Heckscher-Ohlin theory focuses on the difference in relative factor endowments and factor prices between nations as the most important determinants of trade on the assumption of

equal or similar technology and tastes (Jones, 1979). Their hypothesis is expressed in summary form in the Heckscher-Ohlin theorem: a country exports those commodities produced with relatively large quantities of the country's abundant factor. The theorem rests both upon a concept of factor abundance related to pre-trade factor-price ratios and special shapes for the production functions. Should these strict conditions be modified, the Heckscher-Ohlin theorem in some cases no long holds, in others becomes meaningless. One of these cases is demonstrated by Bhagwati (1972). Bhagwati shows that the model is incorrect if factor prices are equalized.

Leontief Paradox. The first empirical test of the Hechscher-Ohlin theory was conducted by Leontief in 1951 using U.S. data for 1949. Leontief found that U.S. import substitutes were about 30 percent more capital intensive than U.S. export. Since the U.S. was the most captial-abundant nation, this result was the opposite of what the Heckscher-Ohlin theory predicted. However, subsequent refinements of the test seem to have the paradox resolved. In addition, Travis (1964; 1972) has claimed that protection can account for the Leontief's paradox.

## Balance of Payments

A deficit or surplus in a nation's balance of payments may arise for many reasons (Kreinin, 1971).

Some short-run or cyclical reasons are: a cyclical expansion of national income at home and contraction abroad will increase the nation's import, reduce its exports and lead to a deficit; a higher rate of inflation at home than abroad will encourage imports and discourage exports; a crop failure or strike may have the same effect and lead to a deficit; a deficit may also arise from international capital flow. Some long-run or structural reasons for disequilibria are: a difference in the rate of growth at home and abroad; changes in tastes or demand preferences; different rate of technological progress and changing factor endowments; and changes in economic and political framework within trade and payments are conducted. Adjustments in the balance of payments may be classified as automatic or policy (Kreinin 1971).

Automatic Adjustment in the Balance of Payments. Assuming that the foreign exchange market is stable and under a flexible exchange rate system, a deficit in a nation's balance of payments is automatically corrected by a depreciation of its currency, while a surplus is corrected by an appreciation. In a second case, a change in the level of trade affects national income which in turn, induce a change in the value of imports and the automatic price adjustment mechanisms takes over.

Adjustment Policies. Among the most important economic objectives of nations are the maintenance of internal and external balance.

Internal balance refers to domestic full employment with price stability. Domestic unemployment can be corrected with expenditure-increasing policy, i.e. expansionary fiscal and monetary policies. If unemployment accompanied by a deficit in the nation's balance of payments, the expansion in national income induces a rise in imports and the reduction in interest rates may lead to a larger short-term capital outflow or reduce inflow, both of which increase the deficit. If unemployment is accompanied by a surplus in the nation's balance of payment, reducing unemployment will also reduce the surplus.

External balance refers to equilibrium in the nation's balance of payment. External balance can usually be achieved with expenditure-switching policies. These refer primarily to devaluation and revaluation. Devaluation normally stimulates the nation's export, reduces its imports and improves the nations balance of trade and payment. A revaluation refers to the opposite and could be used to correct a surplus.

## Protectionism

### Arguments for Protectionism

There are several noneconomic arguments that might make it desirable for a country to trade less and to move to a position of greater autarky (Heller, 1973). The more important ones are: the desire to preserve a certain way of life; greater self-sufficient as a military objective; and protecting the industry against foreign competition. Economic arguments for protection are often built on the divergence of private and social benefits and costs. Schumpeter (1940) in his article "The Influence of Protective Tariffs on the Industrial Development of the United State", states that

> nothing but confusion and misunderstanding can result from any analysis of the effects of protective tariffs from purely economic consideration and without reference to the wider ambitions of the nation concerned and to the particular world situation into which its lot is cast. (1940, p. 164)

Schumpeter agrees that the popular arguments for the protection measures are "below the old free-trade argument" and that "if we lived in a peaceful world, the costs of economic independence of this country might easily outweigh its advantage." But then, he goes on to argue that given the conditions of United States at that time, the protectionist policy has not yet outlived its usefulness based on the non-economic arguments.

Generally, restriction of trade can be accomplished by either imposing tariffs on imports or requiring the exporting nations to impose voluntary export restraint - export quotas (Bhagwati, 1983). In the review of post-war trade liberalization, Greenaway (1983) has noticed that tariff has become less important over the post-war period while there is a widespread proliferation of non-tariff intervention - quantitative restriction, subsidization and discriminatory administrative procedures.

Effect of Tariff. Several economic effects of a tariff deserve mentioning. It is important to realize that the imposition of a tariff on commodities imported from abroad will affect not only the economy of the country imposing the tariff but will also have profound effects on her trading partners (Heller, 1973). Economists distinguish among the following effects of the tariff. First, the consumption will decrease. Second, there is a production effect which leads to an expansion of the domestic output. Third, there is a revenue effect which consists of a change in government receipts because of the tariff. Finally, there is a redistribution effect reflecting the fact that producers now receive a price for their commodities that is above their increase in production costs.

Effects of Quotas. Most work on import quotas that was written before the eighties has been devoted to the study of the similarities and differences between tariff and quotas. Mintz (1973) and Morkre (1979) have studied the issue that whether the effect of quotas is equivalent to those of tariffs. Their assumption is that both quotas and tariffs will produce an import level which will produce an identical discrepancy between foreign and domestic prices. Bhagwati (1965; 1968), Rodriguez

(1974), Fishelson and Flatters (1975), and Pelcovits (1976) have also investigated the issue under alternative assumptions. It is only in the early 1980s that authors have begun to notice the quality upgrading effect of quotas. Falvey (1979), Rodriguez (1979), and Santoni and Van Cott (1980) note that quotas have discouraged the export of lower value items in the exporting countries because the scarcity premium prevailing for all restricted items raises the price of lower valued exports disproportionately. In countries where the responsibility for administering the quotas is carried out by the trade associations, such as Korea and Taiwan, minimum unit price was actually set for exports. Occasionally, in some categories of exports where the demand is high, the application for such exports will be rejected even if the prices are above the standard. Reports from the Bureau of Census (1970-1981) and the U.S. Department of Commerce (1978; 1980) also confirm the upward swing of quality in the imports from those countries.

When imports are restricted by a tariff, the buyer's added expenditure accrues directly to the importing government's treasury which hands back these receipts to the public through greater spending or lower taxes. Under a voluntary quota system, the receipts from the price rise go to the exporters who own the right to export (Morkre, 1979). Mintz (1973) and Suh (1981) point out that voluntary export restraint provides windfall profits to the firms that own the right to export since the ownership of export quotas may be transferred privately between firms in most exporting countries.

The assessing of the costs of quotas are extremely difficult because of the absence of available data. Mintz (1973) separates the costs into direct and indirect costs. The direct costs are:

1) Production costs - the difference between the cost of the domestic, import-replacing output and the foreign imports.

2) Consumption costs - the loss suffered by consumers from being obliged to switch the purchases to less desirable substitutes because of the scarcity of the goods limited by the quotas.

3) Import costs - the costs arise from the raised prices of whatever imports are still admitted after the quotas are imposed.

4) Transfer costs - the consumer's additional expenditures on such output as would have been produced at home at lower prices without the existing quota.

The indirect costs are those resulting from the impairment of competition and the consequent decline in efficiency and technological process that are caused by the quantitative restriction.

## Arguments Against Protectionism

From the viewpoint of the welfare of the world as a whole the most popular claim made for tariff protection is the so-called infant-industry argument. It asserts that the industries that may benefit from large-scale operations because of the existence of external economy, such as good transport facilities, a well-trained labor force, or the "learn by doing" effect, should be allowed to grow to the optimum size under a protective tariff. Theoretically, this is a valid argument. However, often there are difficulties with the practical application of this theory (Kreinin, 1971). First, the argument can be abused, as it has been at times by declining industries that attempt to protect their position in the market and thereby perpetuate inefficiency. Second, once it has been imposed a tariff is rather difficult to get rid of, regardless of the industry's competitive standing. And finally, even in cases where the infant-industry position applies, it is more efficient to offer a direct subsidy as a means of helping the industry to expand. While the tariff imposes on the economy both production and consumption costs, a subsidy embodies only production costs.

From the point of view of an individual nation, the only rational argument for the tariff is the improvement in the term of trade, the "optimum tariff". But this applies only to the major importers that are large enough to exercise monopoly power and affect the terms at which they trade (Kreinin, 1971). In the very real sense, such a tariff must be viewed as a transfer of resources from the relatively poor to the very large and wealthy nations, a transfer that is undesirable on equity and other grounds. Besides, tariff rates in most industrial countries probably exceed the optimum level. Thus under prevailing circumstances, the loss incurred from the optimum volume of trade is higher than gains from the improved terms of trade, even in the absence of foreign retaliation.

Tariffs may at times be used to increase employment or improvement the balance of payments. But both objective can be met more effectively and efficiently by other means. There is a perpetual demand for tariffs to equalized wage rate among nations. It has been demonstrated that American wages are higher because productivity is higher than in other countries, and such a wage differential is necessary to the existence of two-way trade (Bhagwati, 1983). Similarly, the argument that a nation needs the tariff in order to have something to bargain down in tariff negotiation is economically unsound, because the country is better off without the tariff regardless of the level of protection it encounters in the markets of its trading partners.

In sum, while tariff protection is very common in the todays world, rational justification for its use are few and far between. The world as a whole, as well as most individual countries, would be better off if they dispensed with it as an instrument of national policy.

## Summary

To recapitulate, international trade raises the real income of the community by improving the efficiency of resource utilization. The ranking of industries in the order of their comparative advantage, combine with the equilibrium exchange rate, determine which commodities are to be exported and which are to be imported. The resources of a country are most efficiently utilized if they are distributed and employed along this order. Policies that distort this ranking, such as tariff or quotas imposed on specific commodities result in inefficient resource allocation and loss of income to the community. Even if the non-economic argument for protectionism is a sound one, there is a cost associated with trade restriction. In summary, we may conclude that from the view point of the economists, free-trade will increase consumption or the expansion of market while trade restriction is costly to individual nation or the world economy as a whole.

## C H A P T E R V

## THE U.S.-CANADA TRADE RELATIONSHIP

Early last year, the U.S. and Canadian government agreed to begin the process of negotiating a possible free trade agreement covering all commerce between the two nations. Both nations seemed to be very enthusiastic about the negotiation. Mr. Michael Hart of the Canadian Department of External Affairs had expressed in the fourth annual workshop on U.S.-Canadian relations that the Canadian government was ready for the negotiation any time and the U.S. should be ready for an negotiation covering all commerce. His exact words are "...the U.S. should be going into the negotiation thinking 'big'." The situation was quite different on the U.S. side. President Reagan had indicated in his summit meeting with Prime Minister Mulroney that he would like to complete the negotiation by December of 1987. With such time constraint, the U.S. was aiming for a progressing schedule for the negotiation. Mr. Larry G. Butcher of the U.S. Department of State, had indicated at the workshop that the U.S. was aiming for different achievements in different industries. The U.S. would be aiming for an across-the-board "free-trade" for manufacturing industries; some agreement for the agriculture; and some beach head agreement for the service industries. Although some legal experts doubt that they will be able to achieve even this much in their negotiation under such time constraint (Koh, 1986), there is no doubt that efforts to achieve some agreement will be put in by both of the governments in the near future.

## Historical Background

### The Bladen Report

In the 1950s, the traditionally protected Canadian automotive industry suffered increasingly from competition in the domestic and world markets as a result of the development of the European motor industries. Automobile and parts production being an important source of income and employment, the difficulties of the industry naturally prompted widespread discussion. In August 1960, Dean V. W. Bladen was appointed a Royal Commissioner with the duty of inquiring into the competitive position and prospects of the automobile and automotive parts industries. His Report, published in April, 1961, had been the course of some academic debates. Harry G. Johnson (1963) accused him of being a protectionist under the disguise of "free-trade". However, in his Report (1961), Bladen did point out that the post-war difficulties of Canadian industry had to be viewed in a world context. He argued that the low volume Canadian automobile producer was at a competitive disadvantage compared with the high volume producers because of economies of scale.

He also favored "free-trade" and rejected increased protection by increasing tariffs on the ground that "there is a point beyond which the cost of having an automobile industry would be so high as to become politically intolerable to the consumer" (Report, p48). However, contrary to his suggestions, the Canadian government had inaugurated a duty-remission program in October of 1962 to encourage export of parts and hoped to contribute to the efficiency of the Canadian industry by making possible longer production runs (Wonnacott and Wonnacott, 1967). During the first year of its operation, Canadian manufacturers were offered duty remission on imported automatic transmissions and engine block parts on a dollar for dollar basis, for every increase of Canadian content in exported parts. The dollar value of Canadian exports of automotive parts and vehicles subsequently increased over 700 percent between 1962 and 1964 (MVMA, 1986).

The U.S. reaction to this program was generally negative. A countervailing duty petition, filed by a U.S. radiator manufacturer, argued that the duty remission constituted a "bounty or grant, direct or indirect" under the terms of the Tariffs Act of 1930. The Treasury Department chose not to act on the complaint, fearing retaliation on Canada's part. As additional legal action was initiated and with the possibility of "a wasteful contest of strokes and counterstrokes", as described by President Johnson, the U.S. and Canadian officials began to design a mechanism allowing for the development of a more rational and efficient Canadian automotive industry. The result was the Automotive Products Trade Agreement of 1965, or generally understood as the U.S.-Canadian Auto-pact.

The Automotive Products Trade Agreement (APTA)

Since the automotive industry was an extremely important sector of both the Canadian and the U.S. economies, in the recent years, together with auto-parts industry, they made up to about one-third of the trade between the two countries; during the negotiation for the agreement, the U.S. and Canada had some specific objectives in mind. Essentially, both governments recognized:

1) the desirability of establishing stronger economic relations with one another;
2) that this goal could best be accomplished by sustained economic growth and the expansion of markets available to producers from both countries;
3) that trade expansion is best achieved through the reduction or elimination of obstacles to the flow of trade;
4) that the automotive industry has an important place in both countries' economies, hence, it is

in the interests of labor, industry and consumers to have a more efficient and expanding automotive industry.

Based on the above principles, the APTA sets out the three major objectives of the accord in Article I.

a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved.

b) The liberalization of United States and Canada automotive trade in respect of tariff barriers and other factors tending to impede on a fair and equitable basis in the expanding total market of the two countries.

c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.

Article II of the agreement institutes the free trade area between the two countries. There are certain important exceptions to duty-free APTA status on both side. First, certain specialty vehicles, used vehicles, tubes, tires and trailers are excluded in the APTA. Second, the U.S. requires that articles imported into the U.S. from Canada must contain at least 50 percent Canadian value-added to qualify for duty-free treatment. Of the 50 percent, components originally imported from the U.S. may be included. Finally, Canada confines the privilege of duty-free imports to manufacturers as defined in Annex A of the agreement. Manufacturers entitled to duty-free treatment are producers who maintain a certain minimum Canadian value-added and Canadian production-to-sales ratio.

In addition to the above requirements, Canada also required each Canadian manufacturer to submit "letters of undertaking" concerning its expectations about the probable expansion of its production over the subsequent four years. In effect, the companies committed themselves to increase total Canadian value-added in vehicles and original equipment equal to 60 percent of the growth in the value of passenger car sales in Canada and 50 percent in the case of commercial vehicle. The U.S. government was not involved in this exercise but was informed in detail as to the essential provisions of the letters. These safeguards are considered to be stipulated by the Canadian's concern over the trade balance movements and the potential migration of Canadian vehicle production. The safeguards are considered by the Canadian government to be permanent while the U.S. has maintained that they are transitional. Over the years, the U.S. has stressed that the Canadian restriction is contrary to the original goals of the Agreement, particularly "the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade." Canadian representatives maintained that the conditions which originally motivated the restrictions still exist. Despite the concerns with the safeguards, Canadian manufacturers have had little or no difficulty meeting or exceeding their requirements under Annex A and the letters of undertaking. Failures to meet the requirement of the undertaking are rare and since the ability of the Canadian government to enforce such requirement is questionable, the requirement has so far cause little undue burden on the manufacturers.

Over the history of the agreement, both sides have undertaken efforts to assess its impact. Generally, as more than one executive in the industry pointed out, the side that is having a payment deficit at the time of review usually considers themselves being unfairly treated by the Pact. Others, such as Fuss and Waverman (1986), argue that given the fast growth of income and population and changing demographics of Canada in the post 1965 period, the contribution of the Auto Pact is really insignificant. However, the most significant value of APTA is that it has not been altered or fundamentally challenged since its inception in 1964. While it may not be an appropriate model for a potential comprehensive free-trade agreement between the two nations, it does demonstrate the benefits which can be enjoyed by both countries through ongoing efforts to remove trade barriers and other restrictions to the flow of commerce.

## The MacDonald Commission Report

The Royal Commission on the Economic Union and Development Prospect for Canada was established in fall of 1982 and chaired by Donald S. MacDonald. His report, which came out in May, 1985, suggested ways for the Canadian to deal with "...the increasingly competitive international environment and the prospects of more modest growth ..." In part II, Chapter 6 of his report, he recommended freer trade with the United States. Using the example of EEC, he argued that free-trade with the United States would secure Canada's access to a larger market, which in turn would cause firms to be more willing to make the necessary long-term investments in plant, technology, and human resources.

## Different Attitudes Towards Free Trade

Wonnacott and Wonnacott (1967) argue that free trade will lead to rationalization within industry and among industries. The first argument is later supported by by Coates (1967), Helmers (1967), Gernant (1977), and Flynn (1979) based on their studies of the Auto Pact. The second argument is derived form the economic theory of economy of size. They argue that if a free trade agreement is reached between the U.S. and Canada, some industries in Canada will grow because they have not yet reached the economic size while their counterparts in the U.S. will not, simply because they have reached the economic size before the agreement. For the industries that have not reached the economic size in the U.S., severe competition will result and some industries in Canada will be substituted by imports from the U.S. This argument is supported by Williams' (1978) study on the location of industries.

Wonnacott and Wonnacott's (1967) argument has been generally accepted by industrial leaders and politicians alike. Strong opposition against free-trade has been organized by industries that are protected by the trade barriers. Based on recent reports from the Financial Post and the Wall Street Journal, there are mixed feeling toward free-trade. Automotive industry in Canada thinks that the Auto Pact protects them from the larger competitor from the south and they are strongly against any change in the present terms of the Auto Pact. The manufacturing industries in Canada are nervous about the expected competition while printing, forestry, utility, and fishery industries in the U.S. are nervous about competition from the north. These industries have joined force with politicians who sympathize with their cause and created vast resistance to the progress of the free-trade negotiations.

## The Free Trade Agreement

On October 4, 1987, a free trade agreement between the United States and Canada was reached. This agreement is subject to confirmation by the legislature of both nations. Some of the pertinent terms in the free trade agreement are outlined in the following.

### General Terms

All existing tariff, tariff-related measures, quantitative restrictions and other restrictive measures between Canada and the United States will be eliminated over a ten-year period. There are three different schedules for the elimination of trade barriers based on different industries. For computers and equipment, some unprocessed fish, leather, whiskey, motorcycles, etc, tariffs will be eliminated on January 1, 1989. Some other sectors such as subway cars, printed matter, furniture, hardwood, plywood, and most machinery, tariff will be eliminate in five equal steps starting on January 1, 1989. All other tariffs will be eliminated in ten steps, most starting on January 1, 1989.

### Energy

Article 902 affirms Canadian and U.S. right and obligations under the GATT on trade restrictions in energy products. This includes a prohibition on minimum export or import price commitments. More particularly, the United States has agreed to eliminate all U.S. restrictions on the enrichment of Canadian uranium processed before it is exported to the U.S. The United States has also agreed to end its total embargo on exports of Alaskan crude oil and allow Canadians to import up to 50,000 barrels a day.

<u>The Auto Pact</u>

Throughout the negotiations, the Canadian government indicated that it was satisfied with the Auto Pact but was not averse to considering changes that would increase production, investment and employment in Canada. The resulting agreement leave the free secure access to the U.S. market provided by the Auto Pact remains intact. The Auto Pact safeguards and the Canadian value-added commitments remain in place for the Big Three auto manufacturers.

Section XVII of Annex 301.2 provides that all vehicles traded under the Free-Trade Agreement will be subject to a special rule of origin. Under the Auto-Pact, qualified producers, as long as they meet the safeguards, can import vehicles and parts duty-free into Canada from anywhere in the world. Fifty percent of the direct production costs of any vehicle traded under the Free-Trade Agreement, however, will have to be incurred in Canada and United States to qualify for duty-free treatment. Under the current rule governing exports to the U.S. under the Auto-Pact, overhead and other indirect costs are included in the requirement that 50% of the invoice price be incurred in Canada or the U.S. The new rule is the equivalent of a 70% requirement on the old basis. To meet this test, assemblers will have to source more parts in North America.

The two governments also agreed that some of the challenges facing the North American auto industry were more than a matter of negotiating a Free-Trade Agreement. They have, therefore, agreed to establish a select panel to advise the two governments on automotive issues.

## The Financial and Service Industries

In Article 1402, the two governments agree to extend the principle of national treatment to the providers of a list of commercial services established in Annex 1408. With the exception of transportation, basic telecommunications (such as telephone service), doctors, dentists, lawyers, child care and government-provided service (health, education and social service) most commercial service are covered. This means that Canada and the United States have agreed not to discriminate between Canadian and American providers of these services. But this is not an obligation to harmonize. If Canadians choose to treat providers of one service differently than the Americans, they are free to do so, as long as it does not discriminate between Americans and Canadians. Each government also remains free to choose whether or not to regulate and how to regulate.

In the area of securities, Canadian banks in the United States will be able to underwrite and deal in securities of Canadian governments and their agents. Up until now, because of the 50-year old Glass-Steagall Act which separates commercial banking from the securities business, only dealers unaffiliated with a bank could underwrite these securities in the United States. For the future, Canadian financial institutions are guaranteed by Article 1702, that they will receive the same treatment as that accorded United States financial institutions with respect to amendments to the Glass-Steagall Act.

Article 1703 exempts U.S. firms and investors from some aspects of the federal "10/25" rule such that they will be treated the same as Canadian. The rule prevents any single non-resident from acquiring more than 10% of the shares, and all non-residents from acquiring more than 25% of the shares of a federally regulated Canadian-controlled financial institution. The 10% limitation on any individual shareholder resident or non-resident will continue to be applied to the larger banks.

Additionally, U.S. bank subsidiaries in Canada will be exempted from the current 16% ceiling on the size of the foreign bank sector.

Binational Dispute Settlement

One of the loop holes in international trade agreements is the treatment of antidumping and countervailing duty (Dam, 1970). Most of the time, the provision in the antidumping clause provides ground for a new surge of protectionism (Greenaway, 1983).

In the Free-Trade Agreement, the two governments agree that in order for both sides to take advantage of the benefits of the Agreement, there will be need for conditions of fair competition to ensure that economic actors on both sides of the border have equal access to the whole free-trade area established by the Agreement. This will be achieved as a result of a three-track set of obligations:

1) the development over a five to seven-year period of mutually advantageous rules governing government subsidies and private anti-competitive pricing practices such as dumping, which are now controlled through the unilateral application of counter-vailing and antidumping duties;
2) bilateral review of any changes in existing countervailing or antidumping laws and regulations for consistency with the GATT and the object and purpose of the Agreement; and
3) the replacement of judicial review by domestic courts of countervailing and antidumping final

orders by a bilateral panel.

In the past, there were complains that political pressures had disposed officials to side with complainants. Such complainants will now be able to appeal to a bilateral tribunal. Findings by a panel will be binding on both governments. Should the panel determine that the law has been properly applied, the matter is closed. If it finds that the administering authority erred on the basis of the same standards as would be applied by a domestic court, it can send the issue back to the administering authority to correct the error and make a new determination.

## Summary of the Free-Trade Agreement

In general, the Free-Trade Agreement seems to have something for everyone. The Canadian government gets the trade agreement that it wants. The U.S. government gets the access to the service industries in Canada. The Canadian auto-industry gets to keep their Auto Pact almost intact. What is more, it provides an example in the settlement of binational disputes over antidumping and countervailing duties. If this works, it will provide an example for the future rounds of negotiation for GATT. However, all is not settled for the Agreement. There is still strong resistance to the confirmation of the Agreement in the Houses of both nation. The future of the Agreement depends on the debates on Capital Hill and Ottawa.

## Recent Development

In the April 4, 1988 issue of Business Week, it reports that industries are preparing themselves for the great North America shakeout. Although the Free Trade Agreement has not yet received the final ratification, companies on both sides of the border acting as though it is already law. They are trying to position themselves at the strategically advantageous position for the common market. They feel that anyone who waits until the Agreement is signed will be too late. Across the continent, American and Canadian workers, unions, and political leaders are beginning to fight for the jobs that stand to be destroyed and created as the North American Market unfolds.

CHAPTER VI

# METHODOLOGY

## Conceptual Framework

Many economists argue that free trade will lead to market expansion which in turn results in trade efficiency, production efficiency, and investment efficiency (Figure 2).


(Figure 2)
The Economists' Argument

This study uses this argument to analyze executives' perceptions as to the impacts of freer trade and its effects on the implementation of their strategies. Perception of executives in the top 300 Canadian manufacturing firms as to the effects of freer trade between the U.S. and Canada will be sought in an effort to discover whether they conform with the economists' logic. By analyzing the variables which are the underlying causes of the efficiencies resulting from market expansion and by finding out the effects of such variables on the development and implementation of corporate strategies, we are able to provide a link between the perception of freer trade and its effects on strategies.

## Hypotheses

The foundation of this study is the role of managers' perception on the development and implementation of their strategies. The theories upon which the development of our hypotheses is based are:

1) the economists' argument that freer trade will lead to an expansion of market which in turn will lead to trade efficiency, production efficiency, and investment efficiency (MacDonald, 1985);
2) Chandler's (1962) theory that managers use different approaches to implement their long term corporate strategy by the allocation or reallocation of resources -- funds, equipment, and personnel; and
3) the studies that managers' decisions are influenced by their perception (Fishbein and Ajzen, 1975; Mintzberg, Raisinghani, and Theoret, 1976; Mitroff and Emshoff, 1979; Cosier, 1981; Duhaime and Schwenk, 1985).

## Hypotheses

The following hypotheses have been generated from the three management theories mentioned above.

Hypothesis #1: Executives' perceptions conform with the economists' arguments in terms of the results of freer trade.

Hypothesis #2: Managers' decisions in choosing the tactics to implement their strategies are influenced by their perception of the trade policy.

## Operationalization

### Survey of Executives

Mail survey is chosen as the means to collect data for the study. A list of the presidents of the top 300 Canadian firms in manufacturing based on their annual sales is selected from The Financial Post 500 published by The Financial Post of Canada in summer of 1987. The objectives of this survey are:

a) to solicit the perceived effects of free trade, or the executives' expectation of the effects if the U.S.-Canadian trade negotiation came through with a freer trade agreement by the executives' responses; and

b) to solicit thè perception of any change on the executives' action plan basing on the likelyhood of any outcome caused by freer trade.

Measurement of constructs

The variables in the economists' argument: trade efficiency, production efficiency, and investment efficiency are unobservable or difficult to measure directly, therefore, Linear Structural Relations (LISREL) is chosen for the analysis of this model. Structural equation models have been useful in attacking many substantive problems in the social and behavioral sciences. Such models have been used in the study of macroeconomic policy formation, intergenerational occupational mobility, racial discrimination in employment, housing and earnings, studies of antecedents and consequences of drug use, scholastic achievement and evaluation of social action programs and many other areas. The structural equation model is used to specify the phenomenon under study in terms of putative cause and effect variables and their indicators (Joreskog and Sorbom, 1984). According to Joreskog and Sorbom, LISREL is a general computer program for estimating the unknown coefficients in a set of linear structural equations. The variables in the equation system may be either directly observed variables or unmeasured latent variables (hypothetical construct variables) which are not observed but related to observed variables. In this case, trade efficiency, production efficiency, and investment efficiency are latent variables which cannot be measured directly. In LISREL, latent variables appear as underlying causes of the observed variables, in this case, the different manifest indicators.

Since the variables are unobservable or latent variables, it is unrealistic to expect a single indicator to capture validly and reliably such constructs (Pedhazur, 1982; Dillon and Goldstein, 1984.) Instead, multiple indicators are called for. In our case, besides using multiple indicators for the latent constructs, we also use multiple measurements. Both a direct measure and a indirect measure are used to measure our responses.

Direct measure. Perception (attitude) is measured directly by using Semantic Differential Scale. Osgood, Suci, and Tannenbaum (1961) argue that semantic differential is a particular kind of measurement operation relates to the functioning of representational processes in language behavior and hence may serve as an index of these processes. The semantic differential is essentially a combination of controlled association and scaling procedures. We provide the subject with a concept to be differentiated (in this case: market expansion, trade efficiency, production efficiency, and investment efficiency) and a set of bipolar adjectival scales against which to do it. The responses of the subject provides us with the direction and intensity on the scale. Each judgement represents a selection among a set of given alternatives and serve to locate the concept as a point in the semantic space. This process allows us to allocate a concept to a point in the multidimensional semantic space.

A group of questions in the questionnaire are designed to use different sets of bipolar adjectives to describe market expansion, trade efficiency, production efficiency, and investment efficiency. The adjectives are selected from the list of adjectives on Thesaurus Study in *The Measurement of Meaning* (Osgood, Suci, Tannenbaum, 1961).

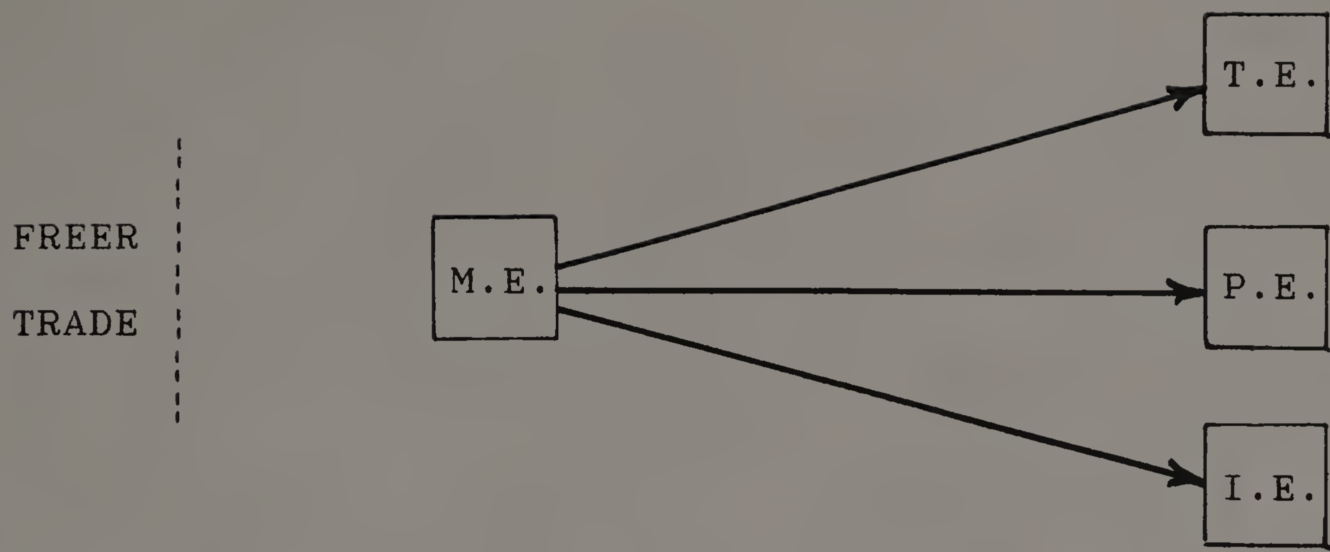
*Indirect measure*. Fishbein and Ajzen (1975) assume that "man is basically a rational information processor whose belief, attitudes, intentions, and behaviors are influenced by the information available to him." According to Fishbein and Ajzen, attitude (perception) is the product of belief and value. Two groups of questions in the questionnaire are designed to measure the belief and value of a special outcome caused by freer trade. The product of these two variables constitute the indirect measure of this indicator.

*Measurement of the effects on implementation of corporate strategy*. Five point Likert Scale is used to assess the probability of the effects on the implementation of corporate strategy through perceptions of executives studied. This group of questions provide the link between the indicators of the latent variables to the perceived change caused by such a variable.

### Model Building

<u>Causal Model</u>. The concept of causation has stirred a great deal of controversy among philosophers and scientists (Pedhazur, 1982; Cook and Campbell, 1979; Dillon and Goldstein, 1984). Scientists seem to have a need to resort to causal frameworks, even though on philosophical grounds they may have reservations about the concept of causation (Pedhazur, 1982). Dillon and Goldstein (1984) feel that "by adopting a causal orientation in one's research, a logical thought process is evoked that moves the researcher closer to the kind of research found in the pure sciences (p.431)." All these authors agree that no statistical methodology is capable, by itself, of "proving" cause and effect. The evaluation of causal models involves theoretical, methodological, and statistical analysis. Pedhazur (1982) conclude that the role of theory in the formulation of causal models is important. The causes and effects are held together by theories.

> ... it is one' causal model about the pattern of causation among the variables under study that determines, among other things, the type of data to be collected and the method by which they are to be analyzed. Broadly speaking, the analysis of the data is designed to shed light on question or whether or not the causal model is consistent with the data. If the model is inconsistent with the data, doubt is cast about the the theory that has generated it ... consistency of the model with the data, however does not constitute proof of a theory; at best it only lends support to it." (Pedhazur 1973, p.578)




(Figure 3)
Causal Model

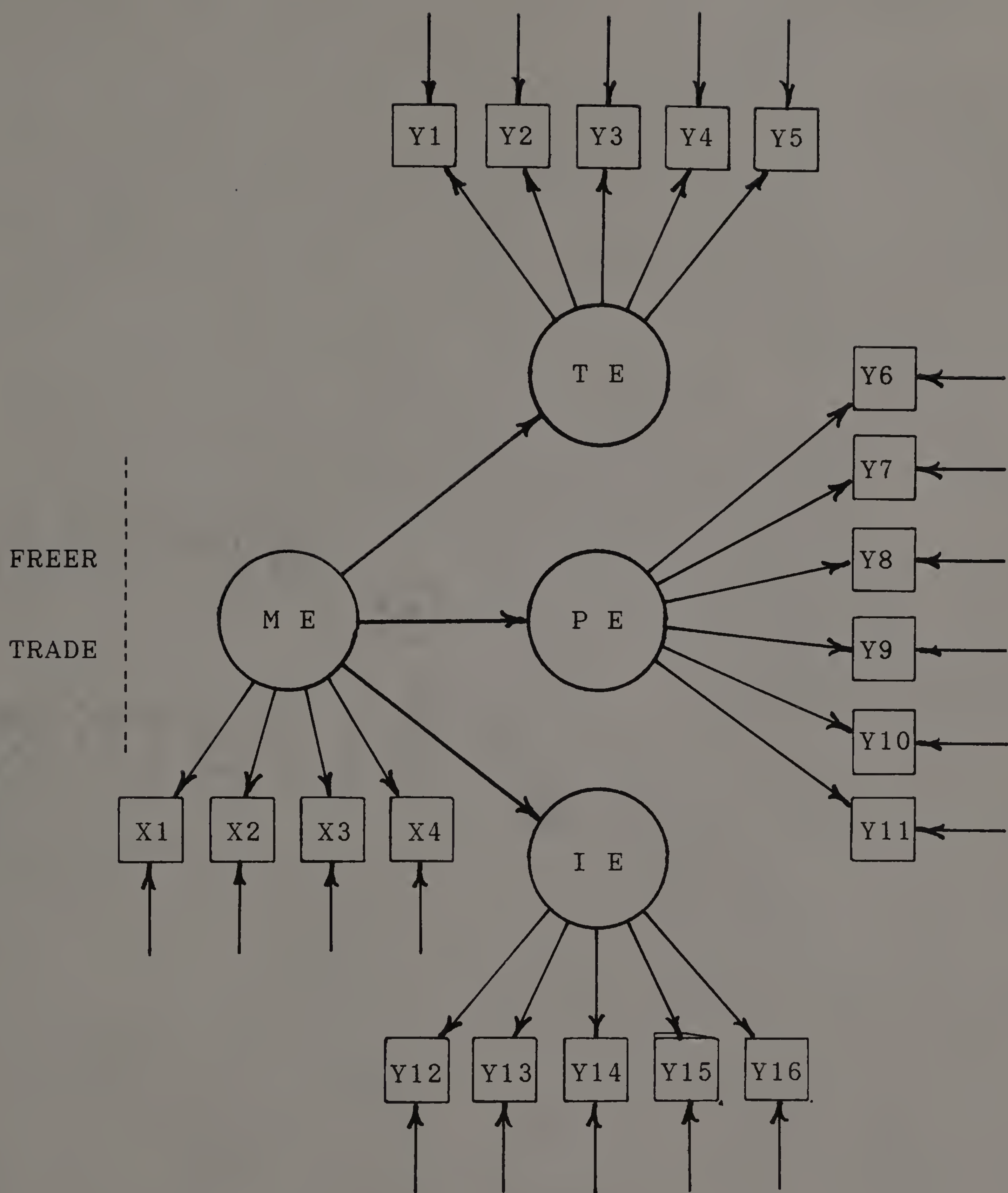
Based on the economists' argument a causal model is developed (Figure 3). In this causal model freer trade is considered as a pre-condition of market expansion and trade efficiency, production efficiency, and investment efficiency are in turn caused by market expansion.

LISREL Model. LISREL (Linear Structural Relations) is a general computer program developed by Joreskog (1973) for estimating the causal effects of unknown coefficients in a set of linear structural equations. The variables in the equation may be directly observed variables, unobserved hypothetical construct variables, or latent variables which are not observed but are related to other observed variables. In the case of latent variables, LISREL assumes that there is a causal structure among a set of latent variables or hypothetical constructs of independent and dependent variables. These latent variables are not directly observed, but there is a set of observed variables that are related to the latent variables. Thus, the latent variables are contrued as underlying causes of the observed variables.

The LISREL model consists of two parts: the measurement model and the structural equation model. The measurement model specifies how the latent variables or hypothetical constructs are measured in terms of the observed variables and is used to describe the measurement properties of the observed variables, i.e., validities and reliabilities. The structural equation model specifies the causal relationships among the latent variables and is used to describe the causal effects and the amount of unexplained variance. The program can analyze a wide range of models, for example, exploratory and confirmatory factor analysis models, path analysis models, path analysis models, econometric model for time series data, recursive and non-recursive models for cross-sectional and longtitudinal data and covariance structure models (Joreskog and Sorbom, 1986).

Using the causal model, a LISREL model is constructed (see Figure 4, page 134). The manifest variables or indicators of each latent variable are made up of one direct measurement and several indirect measurements. Pedhazur (1982) quotes Bentler on the following paragraph about manifest variables:

> Since the LVs (Latent Variables) are in




(Figure 4)
LISREL Model

practice abstractions that presumably underlie MVs (Manifest Variables), a poor choice of MVs will create doubt as to whether a theory's constructs are in fact embedded in a model. Choosing the right number of indicators for each LV is something of an art: in principle, the more the better; in practice, too many indicators make it difficult if not impossible to fit a model to data. (Pedhazur, 1973, p.641)

Under such consideration, care has been exercised in selecting the indicators. For the direct measurement, a list of fifteen pairs of adjectives are chosen from the

Table 2. List of Manifest Indicators.

Market Expansion

X1 = Direct measure of market expansion
X2 = Volume increase caused by a larger combined market
X3 = New markets created by lower costs category
X4 = Overall industrial expansion (more compatible in third countries)

Trade Efficiency

Y1 = Direct measure of trade efficiency
Y2 = Lower transportation costs
Y3 = Less paperwork and red-tape
Y4 = Comparative advantage as a result of specialization
Y5 = Greater competition

Production Efficiency

Y6 = Direct measure of production efficiency
Y7 = Less wastage of resources, e.g., raw material, labor, and time
Y8 = Lower production costs
Y9 = More efficient labor utilization based on concentration of production
Y10 = Better quality products
Y11 = Plant improvement

Investment Efficiency

Y12 = Direct measure of investment efficiency
Y13 = Marginal efficiency of investment (MEI)
Y14 = More flexibility of capital (cross border investment)
Y15 = Return on assets (as a result of concentration in production)
Y16 = Costs of capital

Thesaurus study provided by Osgood, Suci, and Tannenbaum (1961). The indirect measurements are identified by interviews conducted with seven executives.

Executives Interviewed. Two of the interviewees are in the position of planning and policy making; three in production; and two are director and staff in international policy issues. Six of the interviews were conducted in person and one was conducted over the telephone. All the interviews in person are tape-recorded while written notes are taken over the phone-interview. During the interviews, the following questions are asked:

In your opinion, what are market expansion, trade efficiency, production efficiency, and investment efficiency?

Their responses are analyzed and twenty-three variables identified. Based on the result of factor analysis (Appendix A), eighteen variables were chosen from the initial twenty-three.

Pre-test. A questionnaire was written by using the fifteen pairs of adjectives for direct measurement and the eighteen chosen variables for indirect measurement on the latent constructs. The same variables are also used to solicit the effects on implementation of strategies. The resulting questionnaire was used to survey a group of sixty-seven MBA students. Their responses are analyzed by Factor Analysis on SPSS. The program is used to check for factors, factor loadings, and unidimensionality

(Appendix A). As a result of their loadings on the constructed: nine pairs of adjectives are chosen to test Market Expansion; twelve pairs of adjectives are chosen to test Trade Efficiency, Production Efficiency, and Investment Efficiency. For the indirect measure, based on the factor loadings the number of variables are further narrowed down to sixteen. Three of these variables load on Market Expansion, four on Trade Efficiency, five on Production Efficiency, and four on Investment Efficiency.

A final questionnaire (Appendix B) is constructed using the above chosen adjectives and variables.

## Mail Survey

A survey was mailed to Canadian executives on the 6th of July, 1987. A reminder and follow-up was mailed on the first week of August. Since the deadline for the U.S. and Canadian free trade negotiation was set at October 4th, the cut off date for responses was September 30th.

Color Code The questionnaire is printed on three different colored paper. One color is used for mailings to the province of Quebec, another for mailings to the province of Ontario, and a third for the mailings to the rest of the country. This coding enables the study of the differences among the geographic regions if indeed any difference existed.

# CHAPTER VII

## ANALYSIS OF DATA

### General Statistic

Response Rate

A total of six questionnaire were returned by the post office. These questionnaire were not deliverable because of inaccurate addresses or because the persons addressed are no longer with the firms. There are a total of one hundred and eighteen responses on the survey. This gives a response rate of 40.1%. Several of the respondents left many of the questions unanswered. In order to avoid any bias on the analysis of data, an arbitrary cut off point of six or more blanks is used. As a result, twelve of the responses were dropped. The number of usable responses left is 106, with an adjusted response rate of 36.1%.

Table 3. Questionnaire Responses.

| | |
|---|---|
| Number of questionnaire mailed | 300 |
| Number of undeliverables | 6 |
| Actual sample size | 294 |
| Number of responses | 118 |
| Response rate (no. of responses/ actual sample size) | 40.1% |
| Number of usable responses | 106 |
| Adjusted response rate (no. of usable responses/actual sample size) | 36.1% |

## Background of Those Who Responses

The last three questions on the questionnaire asked the respondents: (1) whether their firm is a subsidiary or parent of an U.S. firm; and (2) whether they export to the U.S. Response to these questions showed thirty-five firms or 29.9% are subsidiaries of U.S. firms, and forty-seven firms or 54% export to U.S. The above relationships may affect the value and perception of free trade and the perceived effects to their firms. However, the relationship of parent firm and subsidiary may not bind them to conform to the same strategy, especially when we are dealing with international firms, and their implication should be treated with care. One example is the resistance towards the free-trade negotiation by General Motor of Canada as reflected in the recent reports in the Financial Post. This position is in contrary to that of their parent company, to whom free trade is their official objective (MVMA, 1986).

## Responses by Provinces

From Table 4, the response rate for Quebec is lower than the rest of the country. There is no obvious

Table 4. Responses by Provinces

| Province: | Ontario | Quebec | Others |
|---|---|---|---|
| No. of responses | 67 | 16 | 35 |
| Actual sample size | 164 | 46 | 84 |
| Response rate | 40.9% | 34.8% | 41.7% |

explanation for this. One possible explanation may be: it is a result of the language barrier.

The data set is divided into groups by the color-code and a t-test is run on all 93 variables to test if there is any significant difference in their responses. The only significant difference between the responses from Quebec and Ontario is on V45, which is their value on greater competition. This means that there is no difference between the executives from the two provinces in regard to their perception of the outcomes of freer trade and their strategy in dealing with the different outcomes.

## Hypothesis Testing

Hypothesis #1: Executives' perceptions conform with the economists' arguments in terms of the results of freer trade.

### Factor Loading

As was discussed in Chapter IV, LISREL may be used for confirmatory factor analysis. By studying the measurement model of the LISREL estimates, we will be able to confirm the different factors and their loadings. Factor loadings are the correlations between the factors and the original variables. The factor loadings provide an indication of which original variables are correlated with each factor and the extend of the correlation.

Table 5. Factor Loadings (Standardized).

| Lambda Y: | | T.E. | P.E. | I.E. |
|---|---|---|---|---|
| Y1 | Lower transportation costs | .54 | 0.00 | 0.00 |
| Y2 | Less paperwork & red-tape | .43 | 0.00 | 0.00 |
| Y3 | Specialization advantage | .61 | 0.00 | 0.00 |
| Y4 | Greater competition | .37 | 0.00 | 0.00 |
| Y5 | Direct measure for T.E. | .84 | 0.00 | 0.00 |
| Y6 | Less wastage | 0.00 | .55 | 0.00 |
| Y7 | Lower production costs | 0.00 | .81 | 0.00 |
| Y8 | Efficient labor utilization | 0.00 | .83 | 0.00 |
| Y9 | Better quality product | 0.00 | .67 | 0.00 |
| Y10 | Plant improvement | 0.00 | .78 | 0.00 |
| Y11 | Direct measure of P.E. | 0.00 | .73 | 0.00 |
| Y12 | Higher MEI | 0.00 | 0.00 | .81 |
| Y13 | Flexibility in capital | 0.00 | 0.00 | .75 |
| Y14 | Higher ROA | 0.00 | 0.00 | .68 |
| Y15 | Lower Capital costs | 0.00 | 0.00 | .53 |
| Y16 | Direct measure of I.E. | 0.00 | 0.00 | .81 |

| Lambda X | | M.E. |
|---|---|---|
| X1 | Increased demand | .70 |
| X2 | New market | .52 |
| X3 | Industrial expansion | .76 |
| X4 | Direct measure for M.E. | .86 |

With the exception of Y2 and Y4, we find that loadings of the manifest variables on the latent constructs are quite high (Table 5). The maximum modification index is 4.01 for element (9,1). This suggests that variable 9, which is 'better quality product', may be loading on latent variable 1, which is 'trade efficiency'. Since the recommended minimum release level for a variable is a modification index of 5.00. The release of variable 9 will not justify the one degree of freedom which will be lost as the result of such an action. Also, such a release may lead to a problem in undimensionality (Danes and Mann, 1984).

Overall, this confirms our initial assumption that: Y1 to Y5 load on 'Trade Efficiency', Y6 to Y11 load on 'Production Efficiency', Y12 to Y16 load on 'Investment Efficiency', and X1 to X4 load on 'Market Expansion'. In another word, the executives in general confirm that the variables that we identified are indicators of their respective constructs.

<u>Total effects</u>.

A total effect of an independent variable on a dependent variable is defined as the sum of it direct and indirect effect(s). A direct effect is defined as the part of its effect that is not mediated, or transmitted, by another variable. On the other hand, an indirect effect is the part of the effect of the independent variable that is mediated, or transmitted, by another variable or other variables.

The total effect of 'Market Expansion' on 'Trade Efficiency' is 0.81, on 'Production Efficiency' is 0.60, and on 'Investment Efficiency' is 0.78.

The coefficients in the Gamma matrix indicate the

Table 6. Gamma Matrix (Standardized).

| | (KSI 1) Market Expansion |
|---|---|
| (ETA 1) Trade Efficiency | 0.94 |
| (ETA 2) Production Efficiency | 0.63 |
| (ETA 3) Investment Efficiency | 0.75 |

effects of the exogenous variables on the endogenous variables. The findings on the total effects and the Gamma Matrix (Table 6), indicate the existence of strong correlations between Market Expansion and the three Efficiency constructs. It also indicates that of the three relationships, the one between Market Expansion and Production Efficiency is the weakest.

Assessment of fit.

LISREL provides three measures to assess the overall fit of the whole model. One is the overall Chi-Square measure and its associated degrees of freedom and probability level. The likelihood ratio Chi-Square statistic and the corresponding p-value are the result of comparing the sample and theoretical covariance. Support for the proposed model will be indicated by small Chi-Square and large p-values. The other two measures of overall fit are the goodness-of-fit index (GFI) and the root square residual (RMR). GFI is independent of the sample size and relatively robust against departures from normality. Unfortunately, its statistical distribution is unknown, even under idealized assumption, and there is no standard to compare it with. So, it may only be used to supplement another goodness of fit indicator. The RMR is a measure of the average of the residual variances and covariances.

The reported Chi-Square for our sample of 160 degrees of freedom is 369.05 with a probability level of 0.00. The reported GFI is 0.766 and the RMR is 0.069. In most research, a p-value of greater than 0.10 is required to indicate support for the proposed model (Kida, Smith and Dereshiwsky, 1985). Therefore, our proposed model is rejected.

Measurement Errors. The Chi-Square test for overidentified models is not addressed to a test of the model but rather to a test of the null hypothesis regarding the overidentifying restrictions in the model (Pedhazur, 1982). Moreover, because the Chi-Square test is sensitive to the size of the sample, it follows that given a sufficiently large sample, an overidentified model may be rejected even when it fits the model well. When the sample size is small, one may fail to reject the null hypothesis even when the model fits the data poorly. In view of the foregoing, Joreskog (1974) has suggested that "the values of Chi-Square be interpreted very cautiously." Joreskog and Sorbom (1986) also suggest that:

> Instead of regarding Chi-Square as a test statistic one should regard it as a goodness (or badness) of fit measure in the sense that large Chi-Square values correspond to bad fit and small Chi-Square values to good fit. The degrees of freedom serve as a standard by which to judge whether Chi-Square is large or small." (p. I.39)

Relative Chi-Square. Because of these difficulties in using the Chi-Square test as a measure of goodness of fit, Wheaton el al. (1977) suggest that the researchers should also compute a relative Chi-Square. The Relative Chi-Square is computed by dividing the Chi-Square value by the degrees of freedom. This statistic takes sample size into consideration in assessing goodness of fit. They suggest a ratio of approximately five or less "as beginning to be reasonable." Carmines and McIver (1981) find that Chi-Square to degrees of freedom ratios in the range of 2 to 1 or 3 to 1 are indicative of an acceptable fit between the hypothetical model and the sample data.

The Chi-Square to degrees of freedom ratio for our model is 2.31 to 1. Joreskog and Sorbom (1986) suggest that in most empirical work, the model is only tentative and is only regarded as an approximation to reality. From this point of view, we may want to consider that we have a reasonable fitted model and that our data supported our model.

Although we have strong correlation between Market Expansion and Trade Efficiency, Production Efficiency and Investment Efficiency, we may claim causality only if the data supports the model. In view of the acceptable Relative Chi-Square, fairly high goodness-of-fit index, and the strong Gamma coefficients, the probability of the existence of such causal relationship is quite high. Although we must keep in mind the danger of accepting the model while the data acutally does not support it (Type II error).

Warning in the Printout

The printout issues a warning that Phi (1,1), which is the construct for 'Market Expansion', may not be identified. According to Joreskog and Sorbom (1986), identifiability depends on the choice of model and on the specification of fixed, constrained and free parameters. In this case, it is the result of the choice of model. In our model, we have only one construct in the Phi matrix which means that the rank of the matrix has to equal to zero and our Phi matrix is singular. According to Frank Ayres (1962):

> A real symmetric matrix A is positive definite, if and only if, there exists a non-singular matrix C, such that A = C'C. (p. 134)

He further defines non-singular matrix as:

> An n-square matrix A is called non-singular if its rank r = n, i.e., if the rank of A is not equal to zero. Otherwise A is called singular. (p. 39)

A singular matrix will not be positive definite which means that it will never be identified. As a result, this warning is irrelevant to the analysis of our data.

Hypothesis #2: Managers' decisions in choosing the tactics to implement their strategies are influenced by their perception of the trade policy.

## Perceived Likelihood

To summarize the findings of responses on the perception of the likelihood of free-trade leading to some specific outcomes and the perceived effect of such specific outcomes on their implementation of strategies, responses (1) and (2) on the likert scale are grouped together to formulate 'Unlikely' and responses (4) and (5) are grouped together to formulate 'Likely' while response (3) is treated as neutral. Their result are tabulated and shown on Tables 7 and 8. It is obvious from Table 7, that the majority of the executives

Table 7. Perceived Results of Freer Trade.

| The likelihood that freer trade between U.S. and Canada will result in the following: | UNLIKELY | LIKELY |
|---|---|---|
| 1) Increased demand for products in the larger combined market. | 14.5% | 71.0% |
| 2) Creating of new market in the lower costs category. | 13.0% | 60.9% |
| 3) An overall industrial expansion. | 7.0% | 70.5% |
| 4) Lowering of transportation costs. | 15.7% | 58.2% |
| 5) Less paperwork and red-tapes. | 20.0% | 53.0% |
| 6) Advantage due to specialization. | 1.7% | 88.8% |
| 7) Greater competition. | 0.9% | 92.1% |
| 8) Less wastage of resources, e.g., raw material, labor, and time. | 2.6% | 78.1% |
| 9) Lower production costs. | 0.9% | 89.4% |
| 10) More efficient labor utilization. | 2.7% | 85.8% |
| 11) Better quality products. | 6.2% | 61.0% |
| 12) Plant improvement. | 6.0% | 86.2% |
| 13) Higher marginal efficiency of investment (MEI). | 5.2% | 80.9% |
| 14) More flexibility in capital investment, e.g., cross border investment. | 4.3% | 80.2% |
| 15) Higher return on assets (ROA). | 7.0% | 70.4% |
| 16) Lower costs of capital. | 18.3% | 48.7% |

perceived that the likelihood of freer trade between U.S. and Canada will certainly lead to the sixteen outcomes (variables) in question. Only questions 4, 5, and 16, which are related to: lowering of transportation costs, less paperwork and red-tape, and lower costs of capital, have a higher 'unlikely' score than 15% and 'likely' score of lower than 60%. The rest of the responses are quite one sided. This means that in the minds of the executives surveyed, they firmly believe that free-trade will lead to all the outcomes we suggested.

In reviewing Table 8 (page 149), we will notice that the 'unlikely' scores are much higher, with most of the score ranging from 15% to 20%, and most of the 'likely' score around the 60% range. One explanation for a higher base rate for 'unlikely' scores is: there are some industries which are enjoying free trade or conditional free trade status between the two countries before the negotiation. Industries such as lumber and automotive which have no trade barrier are not likely to change their implementation of strategies basing on a perception of future free trade agreement. Considering the percentage of industries that has no trade barrier before the Free-Trade Agreement, the percentage of those who perceived that free trade will not change their implementation of strategies is actually quite low. If we look at the percentages from the other end, the percentage of executives who perceived that free trade

Table 8. Possible Effect in Implementation of Strategy.

| The likelihood that the following will affect the implementation of your strategies: | | UNLIKELY | LIKELY |
|---|---|---|---|
| 1) | Increased demand for products in the larger combined market. | 20.0% | 59.1% |
| 2) | Creating of new market in the lower costs category. | 25.0% | 44.6% |
| 3) | An overall industrial expansion. | 17.7% | 57.5% |
| 4) | Lowering of transportation costs. | 17.7% | 54.0% |
| 5) | Less paperwork and red-tapes. | 28.3% | 39.9% |
| 6) | Advantage due to specialization. | 15.8% | 64.1% |
| 7) | Greater competition. | 10.5% | 75.4% |
| 8) | Less wastage of resources, e.g., raw material, labor, and time. | 18.0% | 57.6% |
| 9) | Lower production costs. | 16.1% | 67.0% |
| 10) | More efficient labor utilization. | 15.2% | 65.2% |
| 11) | Better quality products. | 17.7% | 61.0% |
| 12) | Plant improvement. | 19.8% | 61.3% |
| 13) | Higher marginal efficiency of investment (MEI). | 12.2% | 67.8% |
| 14) | More flexibility in capital investment,e.g., cross border investment. | 14.9% | 60.5% |
| 15) | Higher return on assets (ROA). | 15.5% | 68.7% |
| 16) | Lower costs of capital. | 15.7% | 59.1% |

NOTE: The above indicators tends to have no effect on industries which are enjoying free trade or conditional free trade status before the trade negotiation.

will lead to a change of implementation of strategies above 60% and with about 20% of those surveyed expresses neutral or no opinion. This indicates that the majority of executives perceived that they will change their implementation of strategies because of the expected Free-Trade Agreement.

Regression.

Regression is a general statistical technique through which one can analyze the relationship between a dependent or criterion variable and a set of independent or predictor variables. It may be viewed either as a descriptive tool by which the linear dependence of one variable on others is summarized and decomposed, or as an inferential tool by which the relationships in the population are evaluated from the examination of sample data. An application of regression as a descriptive tool is the use of regression technique in conjunction with causal theory. Here, we must once again emphasize the importance of a theory in the analysis of any causal model.

Each variable in Table 8 is regressed against the corresponding variable in Table 7. The F-tests on the null hypothesis from all the variables related to Investment Efficiency, i.e., questions 13 through 16, come out significantly different at the 0.05 level. This means that the null hypothesis is rejected and we cannot predict these variables from the corresponding variables in Table 6. These results are understandable because trade barrier are generally expected to play a minor and indirect role in MEI, ROA, capital movement, and costs of capital. For the rest of the variables, the null hypothesis is not rejected. This means that the variables are highly correlated and we may predict change of strategies basing on the perceived outcome of the trade negotiation. In another word, we may conclude that most of the outcomes we used in our survey are significant cause for a change of implementation of strategies.

## Alternative Models

### Theory Trimming

The name theory trimming has been given to the approach of testing of causal model by deleting path coefficients that do not meet the criteria of statistical significance and/or meaningfulness from a just identified causal model. There are some very strong criticisms of the theory trimming approach to the testing of causal models. Essentially, the criticism is that this approach allows the data to dictate which hypothesis to test, which is the opposite of the accepted approach of using data to support a theory. However, the use of theory trimming is always tempting and both Pedhazur (1982) and Dillon and Goldstein (1984) agree that it is a useful tool for the exploratory stage of research. Here, we will further analyze the data for an attempt to explore for possible future studies.

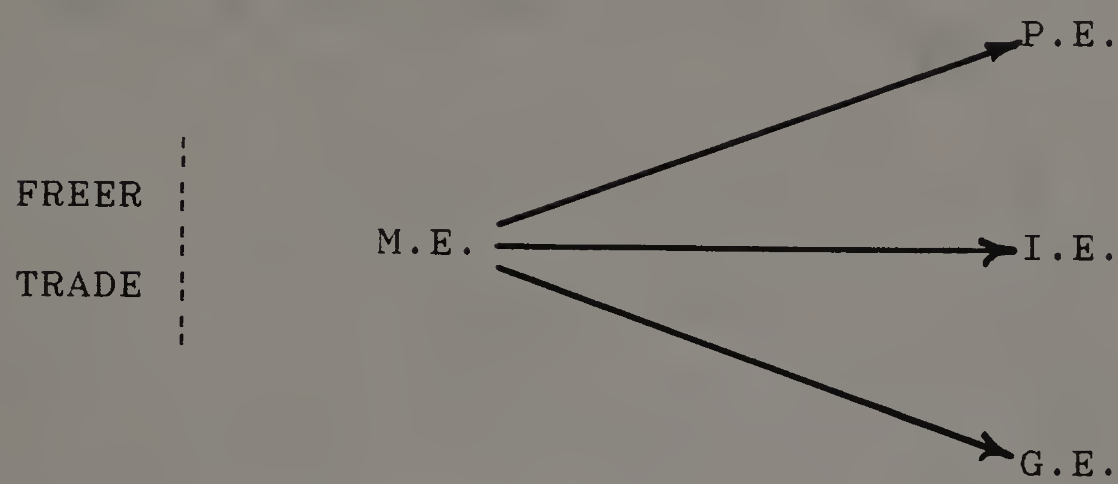
Factor Analysis on the SPSS program is run on all the variables. By studying the resulting factor loadings (Table 9), we notice that there are three variables: V8, V16, and V17, which are loading quite evenly onto three or more factors. These variables are deleted. The next thing that we notice is that variables V5 to V9 which are supposed to be loading onto Trade Efficiency are actually

Table 9. Factor Loadings of All Variables.

| Factors | | I | II | III | IV |
|---|---|---|---|---|---|
| V1 | Increased demand | .57 | .23 | .08 | .37 |
| V2 | New market | .48 | .26 | .14 | .13 |
| V3 | Industrial expansion | .76 | .16 | .01 | .28 |
| V4 | Direct measure for M.E. | .74 | .11 | .38 | .16 |
| V5 | Lower transportation costs | .45 | .32 | ,14 | .19 |
| V6 | Less paperwork & red-tape | .35 | .22 | .12 | .05 |
| V7 | Specialization advantage | .48 | .32 | .22 | .10 |
| V8 | Greater competition | .26 | .27 | .12 | .10 |
| V9 | Direct measure for T.E. | .71 | .22 | .46 | .18 |
| V10 | Less wastage | .33 | .44 | .14 | .05 |
| V11 | Lower production costs | .26 | .80 | .16 | .10 |
| V12 | Efficient labor utilization | .26 | .72 | .32 | .21 |
| V13 | Better quality product | .16 | .64 | .07 | .40 |
| V14 | Plant improvement | .21 | .72 | .31 | .07 |
| V15 | Direct measure of P.E. | .27 | .38 | .72 | .17 |
| V16 | Higher MEI | .34 | .40 | .40 | .38 |
| V17 | Flexibility in capital | .29 | .47 | .25 | .45 |
| V18 | Higher ROA | .38 | .25 | .11 | .65 |
| V19 | Lower Capital costs | .14 | .06 | .19 | .77 |
| V20 | Direct measure of I.E. | .30 | .36 | .74 | .28 |

loading onto the same construct as Market Expansion. This may mean that in the minds of the executives, both Trade Efficiency and Market Expansion are actually one factor. We will name this factor Market Efficiency. The last thing that we notice is that V15 and V20 are not loading onto the factor that they are supposed to. Instead, they form a new factor which is independent of the other two factors. In the semantic space of the executives, they may placed the meaning of Production Efficiency and Investment Efficiency into a general area of 'efficiency'. So, we will called this new factor General Efficiency. Now, we have a new model (Alternative Model A) which says Freer Trade will lead to

Market Efficiency and which, in turn, will lead to Production Efficiency, Investment Efficiency, and General Efficiency (Figure 5).




(Figure 5)
Alternative Model A

If we are willing to give up the direct measures provided by the semantic differential scale and use only the indirect measurements to test our theory, then the General Efficiency factor will not be considered any longer. We will have a new model (Alternative Model B, page 154) which has only three constructs. This new model (Figure 6) says that Freer Trade will lead to Market Efficiency, which in turn will lead to Production Efficiency and Investment Efficiency.

The original data set is used to test the new models. Unfortunately, the test results are quite similar to our original model, which indicates that these model are also not strongly supported by the data. As discussed

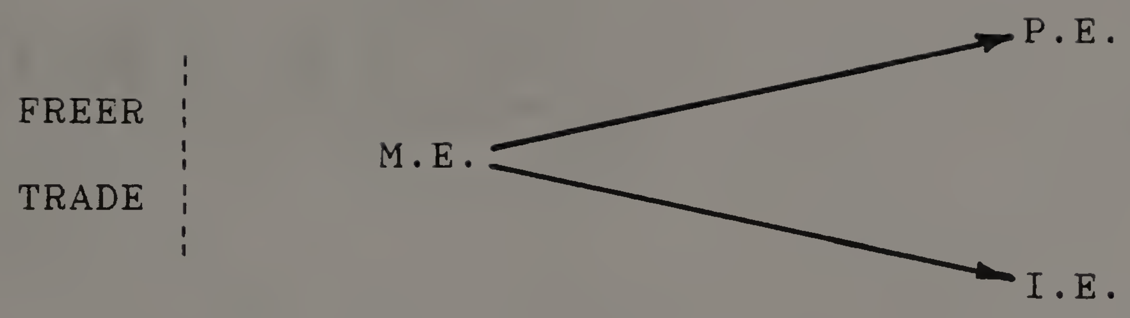



Figure 6
Alternative Model B

previously in Chapter IV, the analysis of a causal model require a theory and specific data collected for the testing of the specific theory. New data designed for the testing of these models may be necessary for the tests to be valid.

# CHAPTER VIII

## CONCLUSION AND INTERPRETATION

### Summary of Previous Chapters

In Chapter II, we reviewed the literature on strategy, implementation and perception. We summarized that 1) the formulation and implementation of strategy are interdependent of each other and these in turn depends on the ability of the managers to effectively utilize the different resources that are available; and 2) the behavior of an individual is affected by their perception of their environment. From these summaries, we may conclude that the formulation and implementation of strategy is affected by the managers' perception of the environment and the resources available to them.

In Chapter III, we reviewed and compared the presidential system of United States and the parliamentary system of Canada. Although there are differences between the two systems, both provide multiple access points for business to influence government decision making process. Since government policies have profound effects on the profitability of business firms, managers will be paying close attention to the developments of these policies and concentrate in influencing the outcomes of such developments to their own advantage.

In Chapter IV, we reviewed the economists' views on free-trade and trade barriers. We summarized that most economists agree that free-trade will lead to an expansion of the market and thus, improve trade, production, and investment. In Chapter VI, we take a look at the trade relationship between Canada and the United States with emphasis on the current development of the Free-Trade-Agreement. With the setting of this trade relationship, we develop a method to test our conclusions in first two chapters through the economists argument. This method is presented in Chapter VII. We analyze and evaluate the results of our survey in Chapter VIII.

## Summary of Findings

Although the LISREL estimates do not strongly support the overall fit of our proposed model, it does not mean that all is lost. The LISREL program is so powerful that even some of the parameters in the model are not identified, it will still be able to estimate consistently those parameters which are identified. Since in our model, the only parameter which is not identified is the Phi matrix, the estimates on the other parameters should be consistent. There is no question on the confirmatory part of our study. We may conclude that the executives confirm the relationships between the indicators and their respective constructs. They also perceived a strong correlation between Market Expansion and Trade Efficiency, Production Efficiency, and

Investment Efficiency.

Some doubt is cast on the result of the overall goodness-of-fit of the data and our proposed model. Since empirical models are, at best, an approximation of reality, and based on the acceptable Relative Chi-Square, fair Goodness-of-Fit Index, and strong Gamma coefficients, we may conclude that causal relationship exist between Market Expansion and Trade Efficiency, Production Efficiency, and Investment Efficiency. This means that executives believe that expansion in consumption will lead to improvements in trade, production, and investment. This support our Hypothesis #1, which says executives perceptions conform with the economists' argument in terms of the results of freer trade.

From the direct responses, we find that a majority of the executives perceived that freer trade between U.S. and Canada will certainly lead to positive results on the sixteen selected outcomes which are indicators of demand in the market and efficiency in trade, production and investment. The percentage of executives who believe that such ontcomes will lead to a change of their implementation of strategies is approximately 60%. This percentage is quite high considering that a high percentage of the U.S.-Canadian business is enjoying some degree of freedom from trade barriers even before the free trade negotiation.

The results from the regression clearly indicate that the executives belief that most of the perceived outcomes of freer trade will cause them to change their implementation of strategies while some others may not. This provides firm support to our Hypothesis #2, which says managers' decisions in choosing the tactics to implement their strategies are influenced by their perception of the trade policy.

Summarizing the above findings, we may conclude that the executives perceive freer trade between the United States and Canada will lead to an expanion of consumption, which in trun will lead to the improvement of efficiency in trade, production, and investment.

Based on our interviews with the executives and remarks written on the questionnaire, the real issue on free trade is not how people perceive it but what will happen when its agreement has been reached. Based on economic theory, in order to take advantage of no trade barrier, after the ratification of the Free-Trade Agreement, there will be a period of reorganization and reconstruction of the economic structure between the two countries. During this transition period, some firms are going to be hurt and another firm will receive an advantage. This is the real concern of the businessmen. This may explain why our findings indicate that the perception of the outcomes of free trade and the perceived changes in implementation of strategies according to these outcomes are similar for all the executives across the country while there is obviously two camps involved in the argument for free trade.

## Limitation of the Study

The economists' argument is basically quite general. Our causal model is only one of the many ways which it can be interpreted. This is demonstrated through our development of the alternative models. The fact that our data support or fail to support the overall goodness-of-fit of the model may not be interpreted as a judgement for the validity the economists' argument. Using similar constrains of our model, hundreds of models could be constructed. The possibility that another set of data may fit our model and another model which our data will support always exist.

Our direct measures of the different constructs provided by the semantic differential measurement are points in the semantic space of our respondents. Besides using it to test our model, in our study there is not much possible empirical interpretation.

The indirect measures are carefully chosen variables based on our pre-test. The empirical implication of our study is limited to the effect of freer trade on these variables only. There are certainly many more variables or outcomes which are related to the issue of freer trade which our study fails to address.

Last and not least, since we choose the not so strict standard for our comparison of the goodness-of-fit for our data and the overall proposed model, we should always be aware of the possibility of a Type II error.

## Needs for Future Research

We have demonstrated that decisions of the presidents of large industrial firms in regards to the implementation of strategies are related to their perception of the trade policy of their countries. Unfortunately, few research is conducted on perception in this area at the empirical level (Murray and McMillan, 1983). At a time when the world economy is moving towards the developing of a global structure, further research concerning the perception of trade barriers by the executives of large firms are badly needed.

At the moment, although the U.S. and Canadian negotiations have reached what might be called a tentative free trade agreement, there are still strong resistance to its ratification by their governments. Our discussion in Chapter III demonstrates that the actions of elected officials are influenced by the lobbying effort and their perceived well being of the large businesses in their constituent. A better understanding of how executives perceived the effect of trade barrier and its effect on their performance of their job will certainly be one step closer to a better relationship between business and government and the achievement of an efficient world economy.

Although the U.S. and Canadian Free-Trade Agreement has not yet been ratified, firms on both side of the border are already scrambling to position themselves at strategically advantageous position. Hints of including Mexico into a American Common Market and the remote suggestion of bringing Japan into the group, make the studies of perception of business executives more acute in the near future.

Although LISREL has its own problem in dealing with inexact models, it can still provide a powerful tool for the analysis of perceptual studies in strategic management. The exploration study in Chapter VII may provide a start for further investigations.

APPENDICES

# APPENDIX A

## Factor Loading on Pre-Test

Factor Loading 1: Direct Measure for Market Expansion

| Factors: | I | II | III | IV |
|---|---|---|---|---|
| Good-Bad | .66 | -.29 | .33 | .01 |
| Fortunate-Unfortunate | .66 | -.06 | -.36 | -.14 |
| Beneficial-Harmful | .77 | -.29 | -.19 | -.05 |
| Rewarding-Punishing | .69 | -.07 | -.13 | .33 |
| Meaningful-Meaningless | .75 | -.08 | -.23 | .14 |
| Valuable-Worthless | .80 | -.20 | .01 | .11 |
| Important-Unimportant | .69 | -.44 | .28 | -.14 |
| Useful-Useless | .73 | -.14 | .49 | -.05 |
| Sufficient-Insufficient* | -.47 | .53 | .17 | -.21 |
| Wise-Foolish | .74 | .18 | .10 | .00 |
| Critical-Indiscriminate* | .55 | .50 | -.02 | -.35 |
| Central-Peripheral* | .47 | .22 | .10 | -.19 |
| Active-Passive* | .45 | -.10 | -.11 | .00 |
| Prohibitive-Permissive* | .35 | .61 | .20 | .17 |
| Impulsive-Deliberate* | .38 | .50 | .06 | .39 |

* Variables that are dropped.

Factor Loading 2: Direct Measure for Trade Efficiency

| Factores: | I | II | III |
|---|---|---|---|
| Good-Bad | .68 | -.46 | -.04 |
| Fortunate-Unfortunate | .72 | .18 | -.21 |
| Beneficial-Harmful | .71 | -.36 | -.06 |
| Rewarding-Punishing | .72 | .13 | -.09 |
| Meaningful-Meaningless | .71 | -.09 | .17 |
| Valuable-Worthless | .75 | -.44 | .08 |
| Important-Unimportant | .69 | -.54 | .02 |
| Useful-Useless | .69 | -.40 | .03 |
| Sufficient-Insufficient* | .62 | .48 | -.19 |
| Wise-Foolish | .73 | .06 | -.15 |
| Critical-Indiscriminate | .64 | .40 | -.34 |
| Central-Peripheral | .64 | .32 | -.05 |
| Active-Passive | .60 | .23 | -.03 |
| Prohibitive-Permissive* | .62 | .48 | .46 |
| Impulsive-Deliberate* | .61 | .25 | .48 |

* Variables that are dropped.

Factor Loading 3: Direct Measure for Production Efficiency

| Factors: | I | II |
|---|---|---|
| Good-Bad | .63 | -.50 |
| Fortunate-Unfortunate | .62 | -.13 |
| Beneficial-Harmful | .70 | -.43 |
| Rewarding-Punishing | .75 | -.04 |
| Meaningful-Meaningless | .80 | .02 |
| Valuable-Worthless | .82 | -.20 |
| Important-Unimportant | .75 | -.15 |
| Useful-Useless | .82 | -.19 |
| Sufficient-Insufficient* | .52 | .40 |
| Wise-Foolish | .80 | -.03 |
| Critical-Indiscriminate | .58 | .15 |
| Central-Peripheral | .61 | .26 |
| Active-Passive | .55 | .31 |
| Prohibitive-Permissive* | .51 | .61 |
| Impulsive-Deliberate* | .44 | .51 |

* Variables that are dropped.

Factor Loading 4: Direct Measure for Investment Efficiency

| Factors: | I | II |
|---|---|---|
| Good-Bad | .69 | -.16 |
| Fortunate-Unfortunate | .82 | -.18 |
| Beneficial-Harmful | .77 | -.38 |
| Rewarding-Punishing | .80 | -.25 |
| Meaningful-Meaningless | .84 | -.31 |
| Valuable-Worthless | .74 | -.36 |
| Important-Unimportant | .76 | -.38 |
| Useful-Useless | .82 | -.02 |
| Sufficient-Insufficient* | .61 | .43 |
| Wise-Foolish | .70 | .17 |
| Critical-Indiscriminate | .64 | .35 |
| Central-Peripheral | .64 | .55 |
| Active-Passive | .60 | .27 |
| Prohibitive-Permissive* | .56 | .47 |
| Impulsive-Deliberate* | .49 | .40 |

* Variables that are dropped.

Factor Loading 5: Indirect Measure for Market Expansion

| Factors: | I | II |
|---|---|---|
| Belief: Unlikely-Likely | | |
| Increased demand | .65 | -.26 |
| New market | .33 | -.41 |
| Industrial expansion | .62 | -.15 |
| Value: Bad-Good | | |
| Increased demand | .38 | .28 |
| New market | .37 | .12 |
| Industrial expansion | .56 | .45 |

Factor Loading 6: Indirect Measure for Trade Efficiency

| Factors: | I | II | III |
|---|---|---|---|
| Belief: Unlikely-Likely | | | |
| Lower transportation costs | .14 | .41 | -.02 |
| Less paperwork & red-tape | .45 | .37 | -.49 |
| Specialization advantage | .26 | .35 | .35 |
| Greater competition | .28 | .27 | -.15 |
| Value: Bad-Good | | | |
| Lower transportation costs | .36 | .49 | .28 |
| Less paperwork & red-tape | .84 | -.25 | -.13 |
| Specialization advantage | .90 | -.20 | .01 |
| Greater competition | .67 | -.25 | .25 |

Factor Loading 7: Indirect Measure for Production Efficiency

| Factors: | I | II | III | IV |
|---|---|---|---|---|
| Belief: Unlikely-Likely | | | | |
| Less wastage | .20 | .47 | .14 | .21 |
| Longer production run* | .02 | .20 | .11 | .69 |
| Lower production costs | .45 | .64 | -.02 | .13 |
| Efficient labor utilization | .41 | .25 | .20 | .03 |
| Better quality product | .52 | .64 | .13 | -.32 |
| Plant improvement | .58 | .50 | .02 | -.18 |
| Better plant location* | .43 | .37 | .01 | -.02 |
| Value: Bad-Good | | | | |
| Less wastage | .57 | -.33 | .23 | .02 |
| Longer production run* | .53 | -.12 | .12 | .26 |
| Lower production costs | .80 | -.37 | .24 | -.08 |
| Efficient labor utilization | .79 | -.36 | .12 | -.03 |
| Better quality product | .77 | -.45 | .20 | .00 |
| Plant improvement | .66 | -.12 | -.63 | .16 |
| Better plant location* | .62 | -.02 | -.67 | -.03 |

* Variables that are dropped.

Factor Loading 8: Indirect Measure for Investment Efficiency

| Factors: | I | II | III |
|---|---|---|---|
| Belief: Unlikely-Likely | | | |
| Higher MEI | .46 | .00 | -.39 |
| Flexibility in capital | .62 | -.10 | .42 |
| Higher ROA | .41 | .18 | .39 |
| Lower Capital costs | .56 | .46 | -.02 |
| Value: Bad-Good | | | |
| Higher MEI | .45 | .47 | .22 |
| Flexibility in capital | .79 | .29 | -.45 |
| Higher ROA | .77 | -.64 | -.06 |
| Lower Capital costs | .61 | -.36 | .10 |

# APPENDIX B

## Cover Letters and Questionnaire

UNIVERSITY OF MASSACHUSETTS
AT AMHERST

School of Management
Amherst, MA 01003
(413) 549-4930

Department of Management

June 16, 1987

Mr. &Name&, President
&Company&
&Addr1&
&Addr2&

Dear Mr. &Last&,

We are writing to ask for your assistance in a matter of importance to you and other U.S. and Canadian corporate executives.

Currently, the U.S. and Canadian governments are in the process of negotiating a new trade agreement. Freer-trade is very much in the minds of both negotiating teams. It is quite likely that the new agreement will reduce trade barriers. There are arguments both for and against "freer-trade". The purpose of our study is to explore your perception on "freer-trade" and its possible effects on your corporate strategies.

We are asking a small, select number of U.S. and Canadian chairmen and presidents of major corporations to participate in this survey. Your name is among those selected for the study. We would be most grateful if you would complete the enclosed questionnaire. Since we are using a small, scientifically-selected sample, your responses are very important to the accuracy and reliability of the survey.

We want to assure you that all response are totally anonymous. They will be used only in combination with the responses from your colleagues throughout the U.S. and Canada.

Please return the completed questionnaire at your earliest convenience in the enclosed reply envelope.

Thank you very much for your assistance in this important study.

Sincerely,

Howard S. Tu
Research Associate

Enclosure

UNIVERSITY OF MASSACHUSETTS
AT AMHERST

School of Management
Amherst, MA 01003
(413) 549-4930

Department of Management

July 31, 1987

Mr. &PRES&, President
&COMPANY&
&ADDR1&
&ADDR2&
Canada &ADDR3&

Dear Mr. &NAME&,

We recently sent you a survey questionnaire and asked your assistance in completing and returning it. Due to the limited selection of executives participating in this study, your individual response is extremely important to assure the accuracy and reliability. We are enclosing another questionnaire in case the first one is lost in the mail. If you have completed and returned the first copy, please disregard this letter.

We apologize for the imposition and sincerely extend our thanks for your cooperation.

Sincerely,

Howard S. Tu
Research Associate

Enclosure

UNIVERSITY OF MASSACHUSETTS AT AMHERST
INSTITUTE FOR NORTH AMERICAN TRADE AND ECONOMICS

School of Management
Amherst, MA 01003
(413) 549-4930

## U.S.-CANADIAN TRADE NEGOTIATION SURVEY

The purpose of this questionnaire is to improve our understanding of how executives perceive the U.S.-Canadian trade negotiation and the impact on implementation of corporate strategies.

All individual responses to the questions are completely CONFIDENTIAL and are processed by automated equipment.

**Directions**
Many of the questions in the survey make use of rating scale with five places. You are to make a check mark in the place that best describes your opinion. For example, if you are asked to rate "To-day's weather" on such a scale, the five places should be interpreted as follows:

"To-day's weather" is

| | | | | | | |
|---|---|---|---|---|---|---|
| Bad | ______ | ______ | ______ | ______ | ______ | Good |
| | extremely | quite | neither | quite | extremely | |

In making your rating, please remember the following points:

1. Be sure to answer all items—please do not omit any.
2. Never put more than one check mark on a single scale.
3. Please place your mark in the middle of spaces, not on the boundaries.

| | | | | | | |
|---|---|---|---|---|---|---|
| Bad | ______ | ✓ | ______ | ______ ✓ | ______ | Good |
| | | This | | Not This | | |

1. MARKET EXPANSION IS:

| | | | | | | |
|---|---|---|---|---|---|---|
| Bad | ______ | ______ | ______ | ______ | ______ | Good |
| Unfortunate | ______ | ______ | ______ | ______ | ______ | Fortunate |
| Harmful | ______ | ______ | ______ | ______ | ______ | Beneficial |
| Punishing | ______ | ______ | ______ | ______ | ______ | Rewarding |
| Meaningless | ______ | ______ | ______ | ______ | ______ | Meaningful |
| Worthless | ______ | ______ | ______ | ______ | ______ | Valuable |
| Unimportant | ______ | ______ | ______ | ______ | ______ | Important |
| Useless | ______ | ______ | ______ | ______ | ______ | Useful |
| Foolish | ______ | ______ | ______ | ______ | ______ | Wise |

2. How likely is it that freer trade between U.S. and Canada will result in the following:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) increased demand for products in the larger combined market? | unlikely | ______ | ______ | ______ | ______ | ______ | likely |
| b) creating of new markets in the lower costs category? | unlikely | ______ | ______ | ______ | ______ | ______ | likely |
| c) an overall industrial expansion? | unlikely | ______ | ______ | ______ | ______ | ______ | likely |
| d) lowering of transportation costs? | unlikely | ______ | ______ | ______ | ______ | ______ | likely |
| e) less paperwork and red-tape? | unlikely | ______ | ______ | ______ | ______ | ______ | likely |
| f) advantage due to specialization? | unlikely | ______ | ______ | ______ | ______ | ______ | likely |

3. Causing increase in demand in a larger combined market is

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | bad | ______ | ______ | ______ | ______ | ______ | good |

4. Creating new markets in the lower cost category is — bad : ___ : ___ : ___ : ___ : ___ : good

5. Causing overall industrial industrial expansion is — bad : ___ : ___ : ___ : ___ : ___ : good

6. Lowering transportation costs is — bad : ___ : ___ : ___ : ___ : ___ : good

7. How likely will the following affect the implementation of your strategies?

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) Increase in demand for your product. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| b) Creating of new markets in lower cost categories. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| c) An overall industrial expansion. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| d) Lower transportation cost. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| e) Less paperwork and red-tape. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| f) Advantage due to specialization. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |

8. TRADE EFFICIENCY IS

| | | | | | | |
|---|---|---|---|---|---|---|
| Bad | ___ | ___ | ___ | ___ | ___ | Good |
| Unfortunate | ___ | ___ | ___ | ___ | ___ | Fortunate |
| Harmful | ___ | ___ | ___ | ___ | ___ | Beneficial |
| Punishing | ___ | ___ | ___ | ___ | ___ | Rewarding |
| Meaningless | ___ | ___ | ___ | ___ | ___ | Meaningful |
| Worthless | ___ | ___ | ___ | ___ | ___ | Valuable |
| Unimportant | ___ | ___ | ___ | ___ | ___ | Important |
| Useless | ___ | ___ | ___ | ___ | ___ | Useful |
| Foolish | ___ | ___ | ___ | ___ | ___ | Wise |
| Indiscriminate | ___ | ___ | ___ | ___ | ___ | Critical |
| Peripheral | ___ | ___ | ___ | ___ | ___ | Central |
| Passive | ___ | ___ | ___ | ___ | ___ | Active |

9. What is the likelihood of the following occuring due to freer trade between U.S. and Canada?

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) Greater competition. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| b) Less wastage of resources, e.g., raw material, labor, and time. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| c) Lower production costs. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| d) More efficient labor utilization. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| e) Better quality products. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |

10. Reducing paperwork and red-tape is — bad : ___ : ___ : ___ : ___ : ___ : good

11. Gaining advantage of specialization is — bad : ___ : ___ : ___ : ___ : ___ : good

12. Greater competition in the market is — bad : ___ : ___ : ___ : ___ : ___ : good

13. Lessening of wastage in resources, e.g., raw material, labor, and time, is — bad : ___ : ___ : ___ : ___ : ___ : good

14. What is the likelihood that the followings will affect the implementation of your strategies?

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) Greater competition. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| b) Less wastage of resources, eg. raw material, labor, and time. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| c) Lower production costs. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| d) More efficient labor utilization. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |
| e) Better quality products. | unlikely | ___ | ___ | ___ | ___ | ___ | likely |

PRODUCTION EFFICIENCY IS:

15.

| | | | | | | |
|---|---|---|---|---|---|---|
| Bad | ____ | ____ | ____ | ____ | ____ | Good |
| Unfortunate | ____ | ____ | ____ | ____ | ____ | Fortunate |
| Harmful | ____ | ____ | ____ | ____ | ____ | Beneficial |
| Punishing | ____ | ____ | ____ | ____ | ____ | Rewarding |
| Meaningless | ____ | ____ | ____ | ____ | ____ | Meaningful |
| Worthless | ____ | ____ | ____ | ____ | ____ | Valuable |
| Unimportant | ____ | ____ | ____ | ____ | ____ | Important |
| Useless | ____ | ____ | ____ | ____ | ____ | Useful |
| Foolish | ____ | ____ | ____ | ____ | ____ | Wise |
| Indiscriminate | ____ | ____ | ____ | ____ | ____ | Critical |
| Peripheral | ____ | ____ | ____ | ____ | ____ | Central |
| Passive | ____ | ____ | ____ | ____ | ____ | Active |

16. Freer trade between U.S. and Canada will result in:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) plant improvement. | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| b) higher marginal efficiency of investment (MEI). | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| c) more flexibility in capital investment, e.g., cross border investment. | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| d) higher returns on assets (ROA). | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| e) lower costs of capital. | unlikely | ____ | ____ | ____ | ____ | ____ | likely |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 17. Lowering of production costs is | bad | ____ | ____ | ____ | ____ | ____ | good |
| 18. More efficient labor utilization is | bad | ____ | ____ | ____ | ____ | ____ | good |
| 19. Improving quality of products are | bad | ____ | ____ | ____ | ____ | ____ | good |
| 20. Plant improvement is | bad | ____ | ____ | ____ | ____ | ____ | good |

21. How likely will the following change the implementation of your strategies:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| a) plant improvement | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| b) higher marginal efficiency of investment (MEI) | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| c) more flexibility in capital investment | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| d) higher return on asssets (ROA) | unlikely | ____ | ____ | ____ | ____ | ____ | likely |
| e) lower costs of capital | unlikely | ____ | ____ | ____ | ____ | ____ | likely |

22.

INVESTMENT EFFICIENCY IS:

| | | | | | | |
|---|---|---|---|---|---|---|
| Bad | ____ | ____ | ____ | ____ | ____ | Good |
| Unfortunate | ____ | ____ | ____ | ____ | ____ | Fortunate |
| Harmful | ____ | ____ | ____ | ____ | ____ | Beneficial |
| Punishing | ____ | ____ | ____ | ____ | ____ | Rewarding |
| Meaningless | ____ | ____ | ____ | ____ | ____ | Meaningful |
| Worthless | ____ | ____ | ____ | ____ | ____ | Valuable |
| Unimportant | ____ | ____ | ____ | ____ | ____ | Important |
| Useless | ____ | ____ | ____ | ____ | ____ | Useful |
| Foolish | ____ | ____ | ____ | ____ | ____ | Wise |
| Indiscriminate | ____ | ____ | ____ | ____ | ____ | Critical |
| Peripheral | ____ | ____ | ____ | ____ | ____ | Central |
| Passive | ____ | ____ | ____ | ____ | ____ | Active |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 23. Improving marginal efficiency of investment (MEI) is | bad | ____ | ____ | ____ | ____ | ____ | good |

| | | |
|---|---|---|
| 24. Increasing flexibility in investment is | bad : _____ : _____ : _____ : _____ : _____ : good |
| 25. Improving return on assets (ROA) is | bad : _____ : _____ : _____ : _____ : _____ : good |
| 26. Lowering of the costs of capital is | bad : _____ : _____ : _____ : _____ : _____ : good |

| | A subsidiary or division of a Canadian corporation | A subsidiary of division of a U.S. corporation | Neither |
|---|---|---|---|
| 1. Your operation is | ☐ | ☐ | ☐ |
| | **Yes** | **No** | **Not Applicable** |
| 2. If a division or subsidiary of a U.S. corporation. Do you export to Canada? | ☐ | ☐ | ☐ |
| 3. If a division or subsidiary of a Canadian corporation. Do you export to the U.S.? | ☐ | ☐ | ☐ |

Thank you for your time and cooperation. We appreciate your assistance in completing this questionnaire. If you have any question regarding the questionnaire, please contact Howard Tu at the following address.

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Additional Comments:

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